

ECONOMIC PROGRESS DEMANDS ATTENTION TO PRIVATE ENTERPRISE AND SCIENTIFIC MANAGEMENT*

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IN THE FIELD OF economic and business organisation, a sort of organisational revolution is going on. Governmental policy and practice have been resolutely running in the direction of fragmentation of national effort at economic development—a kind of economic partition within the country into public and private sectors, in the name of so-called “mixed economy”. The industrial policy statement of 1948 was the beginning of all this. Except for the intemperate threat held over private enterprise, the resolution, as it then stood, was not very controversial. Even a staunch *laissez faire* man could not take exception to the territories then preserved for state initiative and development. Then came the basic revision in 1956, following the enunciation of “socialistic pattern of society”. What was characteristic of it—and what the government has since been practising in a doctrinaire manner until recently—was the introduction of a long list of activities in the form of schedule B. Apparently defined as the common territory, it was left to governmental

initiative to decide as to when and for what particular enterprise, and in what manner, private enterprise was to be allowed to take up any of those activities. This discretionary prerogative came to be implemented in practice in a cavalier manner. This was clear when private enterprise was kept out of some of the activities in the list even though the planned target was far from being hit and the government showed no inclination of taking it up. It is not necessary for me to give actual examples. You must be all familiar with them. As a result, compartmentalisation of our economic activity is well established in practice. What is particularly distressing about this development is the uncertainty regarding the dividing line. The Government has freedom in deciding in favour of private initiative in respect of any of the activities in the schedule. And the exercise of governmental freedom has not always been predictable. In other words, the dividing line has been unpredictably shifting, somewhat after the manner of the Indo-Chinese border! This is particularly so if we bear in mind the power of nationalisation that the Government is now armed with, following an amendment of the Constitution. Add also the fact that, having bitterly failed with coal, the government is now turning

* This is an excerpt from the presidential address by Dr. Das at the fourteenth All-India Commerce Conference at Jabalpur. Dr. Das is Professor of Commerce at Andhra University, Waltair.

to private enterprise to make up for its deficiency. No less instructive is the oil policy that is now being followed.

Within the shifting territory given to it, there is further ambiguity regarding the implications of the Regulation and Development of Industries Act of 1951. Through the apparatus of Development Councils, and other drastic provisions in the Act itself, the government has virtually assumed the role of mentor for many individual basic business decisions *per se*. Consider in this context the functions of the Development Councils and the powers of the licensing committee under the Act. As you may well remember, there was considerable anxiety about the implications of the Act soon after it was on the statute book, and Government was hard put to explain away the rigours of its measure.

Mention needs to be made of disparaging pronouncements that the Government regularly indulges in to confuse and confound private management. Also to the sweeping taxation and other legal measures, such as the amendment of the Company Law, affecting the Private Sector.

All in all one may well ask ; what do those measures, pronouncements, enactments, and the like add up to? Don't they betray a concealed and unverified presumption against private enterprise? Is this, in any case, the way to foster and release initiative and enterprise to help the economic task before the country?

How, then, do we explain the unfolding of governmental attitude and policy affecting free enterprise in the country? Basically, the government proceeds on two assumptions: (a) that private enterprise has neither the attitude of mind nor the capacity to deliver the goods, and (b) that free enterprise

must lead to concentration of economic power. As for the first, the vigour of private enterprise in the country, inspite of its present precarious existence, as just indicated, is well demonstrated by the fact that private industrial investment in the Second Five-Year Plan has not only exceeded its own target but has also more than made up for the shortfall in investment in the Public Sector. As for the other, has not the Government at its disposal the whole machinery of taxation and other fiscal weapons to help? Would the Government look around how the problem of concentration of economic power has been tackled in other countries?

Since Independence, there has been a stupendous growth of entrepreneurial activity on the part of the state. Today, they comprehend industrial and trading activities *per se*, not to mention activities that have always been conceded to be the proper sphere of the government. As of 1957, there were 37 Central Government and 40 state companies in operation. Looked at differently, the volume of investment in the Public Sector has increased from Rs. 1,650 crores in the First Plan, to Rs. 3,650 crores in the second to an estimated Rs. 6,200 crores in the Third Plan. Judged in relation to the Private Sector, you will not find a parallel for this in any country outside the Iron Curtain! If the Government is afraid of the concentration of economic power in private enterprise, how about the concentration of power in the hands of the state? The Father of the Nation had said:

"I look upon an increase in the power of the state with the greatest fear, because although while apparently doing good by minimising exploitation, it does the greatest harm to mankind by destroying individuality which lies at the root of progress."

What should be the organisational philosophy and practice for the country?

Firstly, let the state help and aid private enterprise to do the task of nation-building with initiative and responsibility. Let the Governmental supervision and control be in general terms, within the framework of a plan, largely shorn of its sectoral emphasis, as it should be in a really decentralised planned society. Let not the governmental policy and practice be one of witch-hunting. For, "democracy does not begin and end with the relation of Members of Parliament to electors whom they represent. It has a much broader base in the habits and conventions which rule the general life and business of the community. The relation of Government to business give quality and tone to a very large area of national life. It is so large that what happens there must colour the whole". And, "so far as spirit of individual initiative is lacking, the first task must be to awaken it; and this, a regime of freedom will do, but of regimentation will not."

Secondly, the Government should stand by as a ready entrepreneur to step in where and when the private entrepreneur would not take up a task without too much emphasis on sectors. In other words, let us do away with this antinomy, public versus private sector: let every line of economic activity be open to both on equal terms and on comparable estimates of performance.

Finally, in the perspectives of speedy economic development, our basic philosophy should be: no entrepreneurial rivalry, covert or open, between the state and the individual, but one of competitive co-existence; there is so much to do that we cannot afford any "split-mind" approach. When the state is the overseer of the totality of our

enterprise, there is no need to be afraid of any overlapping of efforts.

While suitable re-orientation of governmental attitude, policy and practice towards the business world will go a long way to help us to put our best efforts to the economic task, this is not to suggest that this is all that is required. On the contrary, there still remains the more fundamental problem of managerial skill in the perspectives of our economic development.

In the first place, we have already noted the large and varied character of the growth of state enterprises. Looking ahead, the entrepreneurial requirement for these enterprises is going to take on new dimensions. It is now certain that the profit motive will also characterise public enterprises generally. The Third Plan looks forward to considerable financial support from public undertakings. It is also equally clear that the state will invite people's participation in the equity of its undertakings. Already, the D. L. Majumdar Study Group has produced a valuable report on this point. In order that such participation should embrace the small investor, the issue of small denominational shares has been specially suggested. This is particularly desirable because this will, especially, when there is government-backing behind such enterprises, help spreading investment-mindedness over a wide area. At the same time, as a recent study shows, the average profit of public enterprises before tax is only 2.77%. Note here also the other fact: that the investors have been generally accustomed to 7% tax-free earnings. Clearly public enterprises in future will have to demonstrate much better performance than hitherto if this proposal is to succeed. In other words, Government enterprises will have to be cost-efficiency conscious and at the same time operate in the dynamics of situations normally

characterising private enterprise. To put it differently, risk taking, innovation, initiative and enterprise must be the qualities of management at the helm of these enterprises. On the other hand, there has been considerable criticism of the calibre of the personnel that has been guiding these enterprises so far. Very recently, the State Trading Corporation's operations came in for considerable criticism in the Parliament. It is too well known how the Estimates Committee has been critical from time to time of the operations of some of the state enterprises. The dearth of suitably trained management personnel for the Public Sector is now clearly recognised. It is true that the Government started the Industrial Management Pool some time back. But recruitment has mostly been from Government departments. It is also necessary to state here that, except for a few from the Services, the administrators from the Government departments have not measured up to the task of the business management. It is true, again that it may be possible to draw managerial talent from the Private Sector. But would not that denude private enterprise of its own resources? It is interesting to observe here that, when nationalisation was going on in England, this was one of the problems posed as Government began to draw talent from private business. In the second place, turning to the private sector, the situation has two facets. Firstly, there is the growth of corporate enterprise, involving separation of ownership and management, and demanding a separate managerial class to man them. The most significant impact of first two plans has been the increase in the share of the corporate sector in the total net domestic product at factory cost. It has risen from about 8% in the 1950-51 to about 12% in 1957-58. "This does not, however, bring out the dominant position it occupies in the economy. Towards

the end of the second plan, the corporate sector will account for more than 62% of the gross fixed assets of the country and 65% of the gross fixed assets plus inventories. And from all available indications, this is going to increase much faster in the third and later plans". The growth of the corporation seems to be an inevitable, and desirable, adjunct of modern industrialism. Rightly does Adolf Berle characterise this as the central feature of the twentieth century capitalist revolution. It is true that many of our corporations are private, and are of the family type of institutions. But surely, looking ahead, especially following the impact of modernistic taxation policies of various types, and also in view of the giantism that tends to characterise industrial institutions, these corporations will come to stand out as more or less independent institutions unto themselves. For example, there is the trend of private companies increasingly turning to be public companies even today.

There are some other developments. Owing to the impact of technology and social perspectives, modern enterprise operates on a long horizon, particularly emphasising human relations and productivity. Secondly, considering how business enterprise must be expanding in volume and number, a dynamic source of supply, apart from its quality, may fail us in the future. It is interesting to note that this has, more or less, been the case in the U.S.A. and England. Management talents have increasingly come into business from outside the fold of the dynasties of their owners. Lastly, the presently available managerial talent in the country has often been criticised for its dynastic affiliation for the position that they occupy and also for their authoritarian perspective, the two perhaps being interlinked. In any case, to the extent that this criti-

cism is true — and it is so in considerable measure—what is required is their suitable reorientation.

Taking these factors in the situation into account, the basic problem of the country is the supply of sufficient and appropriate managerial skill and expertise. It is on this human factor that the future of our industrialisation revolves. While reorientation of governmental policy and practice may help initiative, enterprise and application of managerial skill, this cannot be any answer to their insufficiency of supply. In other words, we are face to face with the problem of initiating the development of a managerial class — and hence of management education.

While the country is giving devoted attention to the problem of technical education and technical man-power, the same cannot be said of this field of management education and managerial man-power supply. This is because we still labour, in spite of what other countries are doing in these respects, under the belief that managers are born and not made and that management education is just a fad. A few institutions have, it is true, come up in the field of management education. But they are yet to make their impact on our business life because they are confining themselves to those who are already in business positions, partly because their curriculum is not suitably practice-oriented, partly because they face the problem of mature qualified and experienced staff for their programmes, and partly because their effort is dubbed as unintelligent American imitation. Above all, the number of these institutions is also too few to be significant.

What is, therefore, required, is a well-thought-out, purposive, properly manned, and comprehensive educational programme. Equally necessary is the task of stock-taking

of supply of managerial skill in the country and forward-looking programming of supply of this human resource, as in the case of technical man-power.

It is not necessary for me here to give a complete blue-print of management education. This will require the pooling together of expert opinion and view-points. I will briefly indicate what would be demanded of those who will take up positions in business in the years to come. As our industrialisation proceeds on the basis of available knowledge of other countries, an advantage of coming to take to industrialisation late, we would not require much innovational quality that Schumpeter emphasised as a requisite for economic progress. What would be required is not just technical competence nor just ability to co-ordinate conflicting considerations to decision-making. It would be as important to demonstrate social responsibilities as well as awareness of human relations in the operational process. A business organisation *per se* is, as Chester Bernard points out, essentially a human organisation. Since it has to operate in a social environment, it is also part of the larger social environment. Management education, therefore, must aim not merely at inculcating the technique of achieving efficient economic performance as such, but also economic performance immediately as well as on a long horizon, besides taking into account human and social relations.

In building up this education we would not be beginning from the scratch. For nearly half a century, the country has been imparting business education in the shape of what is known as commerce education. This new education will have to be intimately linked up with commerce education. Commerce is basically functional and specialised in character, imparting training in the various branches of business

operation. Accordingly, management education must essentially be built upon an integrated view of this functional and specialised training. The integrational aspect, as also its emphasis on application, will give the management education its purpose, identity and mission. It is necessary to emphasise that, in a comprehensive business education, both commerce and management training have their place of honour. Let those who are engaged in shaping our business education kindly take note of this.

of economic development, taken in stages with discretion rather than valour, managerial manpower and its development may well turn out to be the crucial factor. What Prime Minister Nehru said in 1956 is more significant today than when he said it four years ago:

“This programme of industrial development will make larger demands on the country’s resources of technical and managerial personnel.”

Granted our democratic planning, granted also the social task

I underline the last two words.

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