JOINT SECTOR—SOME ISSUES

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"People must come to accept private enterprise not as a necessary evil, but as an affirmative good."

—Eugene Black

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Though the concept of the joint sector has been in the air for over three years now as conceived by the Dutt Committee, it is yet to take a concrete shape. There is nothing novel about it as there have been several eminently successful examples of collaboration between private sector companies, Indian and foreign, and the Government.

The Minister for Industrial Development, Mr. C. Subramaniam, only recently commented that at present there was only a vague idea about the joint sector and that four or five variations were being examined by different working groups. It is only after their findings were available that different formulations will be worked out and submitted to the Cabinet for approval.

In the very nature of things in a fast changing environment there cannot be any rigid guidelines, as it is axiomatic that the framework evolved must march in tune with times and not be a slave of past predilections. In a rapidly growing industrial society, large organisations are inevitable. For efficient operation of these organisations, professional management is the most vital factor. Besides, the magnitude of resources required for large projects calls for substantial

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underwriting support and loan assistance from public financial institutions.

Joint sector as presently conceived implies an institutional framework which would combine the best in managerial expertise there is in the country in the private sector and financial resources in a very large measure to be provided from public sources. Equity participation by the private sector partner will not normally be allowed to exceed 25%. It envisages an open corporate structure, the functioning of which should have a degree of accountability to all the important segments, viz., the shareholders, the employees, the consumer and the community. The benefits arising from growth in this sector would thus be utilised for further growth and development of the economy as a whole and not in the interest of a few.

The joint sector is a logical sequel to the pattern of mixed economy which we have practised in the last over 20 years which implied co-existence between the public and private sectors. The relatively rapid growth in the public sector in the last 15 years has abundantly made it clear that mere ownership by the state does not necessarily ensure social justice or subserve the public interest. It has in fact driven home that only through efficient and profitable husbanding of resources could the public enterprises discharge responsibility to their shareholders, viz., the public at large.

It is recognised that the private sector has built up a reservoir of technical and managerial talent some of which could be compared with the best in the world. With the circumscribing of opportunities for growth and expansion of a large segment of private sector, these men have not been sufficiently challenged to give their best. Why not then the co-existence be transformed into a co-partnership to national advantage?

If the premise is accepted that for successful working of the joint sector sound professional management is the key factor it is incumbent that more detailed thought should be given to this aspect.

IDBI Annual Report 1971-72 has rightly pointed out that entrepreneurial and managerial talents are scarce and it would not be advisable to fritter them away in inactivity.

As Mr. D. P. Dhar, Planning Minister, observed at Ahmedabad recently, "While public sector would ultimately control the commanding heights of the economy time had not come for the abolition of the private sector. The private sector had a difficult role to play but it should function for the interest of the country instead of only in such areas as to make quick money and larger returns."

Since it is now abundantly clear that good competent professional management makes all the difference between success and failure of an enterprise, *irrespective of ownership*, let us elaborate on this aspect which is fundamental for the success of the joint sector.

Composition of the Board of Directors: Starting from the policy making framework, the composition of the board of directors is extremely important. Besides providing the policy direction and control, the board would be looked up to for leadership and motivation of the enterprise, both for its economic performance as also attainment of socially purposive goals.

The board should be compact and be as broadbased as possible and cover a wide spectrum of experience and disciplines such as engineering, accounting, law, economics and sociology. The directors should be drawn from the ranks of the professionals, the term as defined in its widest sense, viz., those who have come to occupy positions of distinction in their respective vocations or professions by virtue of their contribution. Besides they must be prepared to commit enough time to their task. The representations need not necessarily be in proportion to the total investment.

The professional does not accept mediocrity and endeavours to be uptodate; he accepts the rules of the game and avoids procrastinating; looks for improvements continually. He is open-minded and fair in his dealings, seeks opportunities to expand and display his skills. He has a willingness to face facts and bear responsibilities and has the ability to make decisions and the courage to abide by the consequences.

The Chairman would occupy a pivotal position. For efficient and harmonious working it is most essential that the appointment is made after a great deal of thought. Above all, he should be independent-minded, have a keen sense of involvement in the growth and welfare of the enterprise and be able to withstand external pressures, which are inevitable in a political democracy and which have been the bane of many state enterprises.

The Managing Director who is to be the nominee of the private sector partner should be selected only on the basis of his professional competence and expertise. His basic loyalty and commitment must be to the enterprise he is placed in charge of. He should be given the fullest possible autonomy to function effectively. His powers should be wide enough for efficient conduct of day-to-day management, of course, subject to certain broad constraints in respect of new investments, appointments of senior personnel, etc. His remuneration and perquisites should be based on scales comparable for similar companies in the private sector within the guidelines set by the Company Law Board.

In respect of those nominees who are appointed by the government or the financial institutions, it must be ensured that they are allowed to function independently and can exercise their judgement and take decisions on their own initiative without constant consultation back and forth with their sponsors, as else the Board can hardly function as a team and take prompt decisions. In respect of those appointed from the panels being formulated by the institutions, suitable remuneration, besides the sitting fees, should be paid to the nominee directors to compensate them for sparing adequate time.

The Role of the Private Sector Partner: Resources with the private sector units who could usefully contribute to the joint sector are at best limited. Thus being mere investors in the joint sector units could hardly be a strong motivation for the shareholders of these units. Further since the creation of the technical and managerial structure and the operation of the enterprise would largely be their responsibility it is only fair that they should be adequately compensated as would be the case if a foreign collaborator was involved. It is, therefore, suggested that looking to the nature of the industry and the type of technical and managerial know-how offered, an agreement should be entered into with the private sector partner spread over a minimum period of 5 years from the date of commercial operation, setting out the terms and conditions of the collaboration. The agreement should be subject to renewal by mutual consent and should also provide for adequate compensation to the private sector partner in the event of premature termination for *bona fide* reasons.

Investment by the private sector company in a joint sector project would call for clearance under the Monopolies and Restrictive Trade Practices Act as in any other case. This necessarily involves considerable amount of time and delay. The ostensible purpose of the MRTP Act is to ensure avoidance of concentration of economic power to the common detriment or any economic activity which is prejudicial to public interest, which would be amply served by establishing a project in the joint sector. Hence applicability of the Act should be waived in case of such projects.

For purposeful functioning of the joint sector enterprises some broad criteria must be evolved. Though what follows may seem obvious to any objective management practitioner, it must be admitted that in practice many of these have only been paid lip service to in both private and state enterprises.

Management: To bring about a high sense of involvement for the efficient management and growth of the enterprise, promotion should be made from within to the extent possible. People no longer consider just good remuneration as adequate as most reputed organisations have about comparable benefits. What they desire is to be used well. Thus bringing about job enrichment by providing responsibility, achievement, recogntion, growth, advancement and engrossing task should be an important objective.

Selling Policy: The type of selling organisation would depend on the product. A sole distributorship arrangement should be avoided and if the company must avail of outside distribution agencies it should appoint selling agents on a regional or zonal basis. In any event, the company should have a full-fledged marketing division of its own to obtain adequate market intelligence and for gearing the company's production programme to the needs of the present and emerging demand.

In the case of products which require after-sales service, high priority should be attached to establishing a first class organisation for this purpose.

Pricing: The policies to be adopted in this regard should be based on sound principles of cost and finance and governed by competitive market forces. The rate of return on capital employed is undoubtedly one of the most effective yardsticks for measuring managerial performance. However, this should be synchronised with consumer interest which must be kept in the forefront consistent with the viability of the enterprise.

Cost Consciousness: In a relatively sheltered economy, cost consciousness has been at a discount. Corporate practices, therefore, have not been sufficiently tuned to pay adequate attention to constantly strive towards cost improvement and reduction in all areas of the company's operations. This must receive pride of place in management objectives of the joint sector.

Research and Development: Special emphasis needs to be paid to this aspect. The annual outlay thereon and the type of R & D Organisation to be set up will depend on the size of the unit, the technology involved, the scope for product and process improvement and innovation.

Industrial Relations: The experience so far in this respect has not been happy and in fact the number of mandays lost has been on the increase which the country cannot possibly afford. For ensuring harmonious working broad based participation at all levels, in the form of consultative committees, would go a long way in creating a healthy atmosphere. There should be a constructive rapport throughout with the representative trade union and improvement in productivity, capital and labour, should be made the key feature of this relationship. Further, a paternal outlook would do nobody any good and discipline must be inculcated and enforced.

Accountability: The degree of accountability in the joint sector must necessarily be high and should be in consonance with the desirability of maintaining a high degree of managerial autonomy at all times. Parliamentary and political interference with the detailed working of these companies must be avoided at all costs to obviate the considerable handicap under which some of the public sector units function at present and which has resulted in stifling initiative. Only an annual report of the board of directors should be placed before Parliament and the management should be spared.

The concepts of managerial audit and social audit should be ingrained into their working. The former would include appraisal in respect of:—

a) Step taken towards attainment of corporate objectives;

b) Soundness of management decisions;

c) Proper deployment of allocated resources to achieve plans and objectives; and

d) Actual performance in various areas compared to budgets.

For social audit the yardstick which may be applied for measuring performance would be:—

i) Repsonse to national and state citizenship obligations measured by compliance with social and welfare legislation;

ii) Contribution to the national exchequer, both in terms of Rupees and foreign exchange, to determine how important has been the company's contribution to the national economy;

iii) Response to local problems, financial and organisational, towards combating pollution, slum clearance, etc.; and

iv) Contribution to progress measured in terms of employment created and the concern displayed for the welfare of employees and their families through provision of adequate education, medical and recreational facilities.

There are many grey areas yet to be resolved. Given mutual trust and confidence between the parties concerned there is no reason why this experiment which has been a success in India, at any rate in a majority of cases where it has been tried so far, should not if attempted in a larger measure with adequate groundwork prepared, pave the way for industrial revival. To be candid, in the prevailing climate where uninformed criticism of industry often bordering on hostility is not an infrequent feature and statutory and administrative constraints operate in an increasing measure on growth of units in the organised sector, there is no other option. As pointed out by W. W. Rostow: "The old debate, which focussed on Government versus private enterprise is an old-fashioned, out-of-date way to put the problem of economic growth in the contemporary world in both developing societies and more advanced societies; the most fruitful relationship between public and private enterprises is one of partnership towards larger national purpose."

The positive response of professional management in this context is of crucial importance and may well hold the key to future development.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

"Free Enterprise was born with man and shall survive as long as man survives."

—A. D. Shroff
(1899-1965)
Founder-President,
Forum of Free Enterprise.

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