PUBLIC ENTERPRISES IN INDIA

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PUBLIC enterprises have now become, in most countries, a permanent and important sector of national economic life. The nationalisation of public utilities and participation in basic and strategic industries is not particularly an Indian trend; even countries like the U.K. and the U.S.A. with highly developed economies, have not remained untouched by this new development. State enterprises, by reason of their public ownership, operating often in a monopolistic field, have to depend upon popular support for their growth and expansion. Increasingly large investments of national resources in their creation and expansion have also developed a continuing public interest in their management and control. It is on these considerations that their efficient and economic management as also their accountability assume considerable importance.

It is now universally recognized that rules, regulations and controls which are applied to departmental activities cannot be satisfactorily used in State enterprises. They have to be given form and authority needed, to make it possible for them to fulfil the very purposes for which they are created. In the words of Herbert Morrison: "When we come to a highly commercial enterprise, we have to get a more subtle instrument, more adaptable, more capable of quick movement and less liable to be bound down by tradition and rules." It is on these considerations that the nationalised industries in the United Kingdom were given the corporate form and operated on business lines with a comparable degree of elasticity of control and business efficiency as in private enterprises.

Before Independence, State intervention in India's economic development was, at best, spasmodic and fragmentary. An alien power did not feel any compelling urge to embark on a plan of rapid industrialisation. It rested content with the nationalisation of the railways and participation in the equity capital of the Reserve Bank. The departmental form of management was preserved on the nationalisation of the Railways. While the controlling authority, the Railway Board, had certain statutory functions, it was nevertheless administered as a department of Government. It was only after the enunciation of the Industrial Policy Resolution of 1948, that State initiative and participation in industrial development became a significant force and the concept of the management of public enterprises as autonomous units became an ingredient of her economic development.

The autonomy which is inherent in any form of public enterprise does not mean an abdication of Government's responsibility and authority; nor does it mean the abrogation of parliamentary control. The problem is to find systematised and streamlined controls, both executive and parliamentary, in which the essentials will remain and the irritants disappear, in which the undertakings will be free to function without undue let or hindrance, a freedom which will be scrupulously honoured so long as they function economically and efficiently.

The structure of the State enterprise, incorporated as a company, does not differ substantially from the structure of private enterprises. Certain functions and powers have, however, been reserved to the President. The power to appoint the Directors, including the Chairman and the Managing Director, flows logically from his status as the sole share-holder. The other provisions, more particularly, the right to issue directives, are inherent in the character of a public enterprise as an apparatus for the furtherance of the State's economic policy. This provision is necessary to safeguard national interests and to ensure that the policy of Government as a whole is free from contradictions. It is not intended to influence or direct day-to-day administration or the execution of approved policy. Another important reservation is the authority conferred on the Comptroller and Auditor-General to conduct a supplementary or test audit and to direct the auditors appointed at the Ordinary Annual Meeting about the manner in which they should fulfil their responsibilities. This reservation again recognizes the constitutional position and functions of the Comptroller and Auditor-General in securing the accountability of the executive in regard to the outgo of monies from the Consolidated Fund. The provision for the approval of the President to capital expenditure exceeding Rs. 10 lakhs and to appointments to posts on a maximum salary of Rs.2,000 and over is, however, questionable. If incorrectly used, it may result in political interference and encroachments on the autonomy of the companies and may even affect their efficient operation and management. Though these reserve powers are important, they are not unreasonable and, if applied in the manner intended, they should not interfere with the autonomy of the companies.

The processes antecedent to the establishment of an enterprise are important in their impact on the economics of production. While the determination of the industries to be developed and expanded and the targets to be reached, whether in the public or the private sector, is now a function of the Planning Commission, it is for the entrepreneurs to decide upon the number and size of the production units, to select foreign associates where necessary, to settle the scope and terms of such association, and finally, to determine the location of the plant. These aspects of planning are as important as the arrangements for subsequent management and operation of the units established. It would be stating the obvious that any lacuna in planning, in the selection of associates and location, would adversely affect their stability, efficiency and competitive capacity.

In the public sector, these responsibilities of promoters devolve upon the Ministry-in-charge of the industry concerned. The knowledge, maturity and experience needed for the adequate fulfilment of these responsibilities are, unfortunately, not always in evidence. The dispersal of the industries in several Ministries of Government comes in the way of providing for specialisation, for pooling of experience and for co-ordination of policy. It is common knowledge that the ship-building industry suffered a setback because the foreign associates selected were unsuitable and also unequal to their task. It is also well-known that the Konar Dam, an important component of the Damodar Valley Corporation, constructed at a cost of over Rs. 11 crores and "dedicated to the people of India" by the Prime Minister, has not generated one kilowatt of power or irrigated one acre of land; its utility as a flood control measure is also seriously in question. It is perhaps not so well-known that the production of steel in the public sector has been delayed by over eighteen months as a result of indecision on the size of the Rourkela plant. The obvious decision to have a capacity of a million tons was taken only after detailed plans and estimates had been prepared for a half-a-million ton unit at considerable cost and effort. A comprehensive assessment of the waste that has taken place of our limited resources as a result of faulty planning and execution would, I fear, present a staggering picture.

The selection of efficient and knowledgeable associates of proved integrity is not enough by itself; the determination of the degree of association, advice and assistance needed is equally important. Till 1955, the policy was to give the foreign associates, wherever they were needed, a financial stake in the industrial projects. It was considered that their participation in equity capital would secure economic construction, adherence to target dates of completion and also subsequently the economic operation of installed capacity. There was no provision for the payment of any interest on the share capital and the associates had, therefore, to rely on the profits made by the companies for a return on the capital they had invested. This continued association and interest provided for the efficient operation of the production units; it also eased the foreign exchange difficulties. Our well-known deficiencies of competent technical personnel and of foreign exchange were thus substantially met by this policy. Additionally, it encouraged the now much sought after foreign participation in India's economic development. Obviously, a review of policy is urgently called for.

The selection of a suitable location for a particular industrial unit has necessarily to be determined on economic consideration, on an examination of the availability of resources of raw materials, transport and manpower locally, and its proximity to areas of consumption. But not unoften, political and even parochial considerations intervene, and these weighty and material considerations are brushed aside and the advice of technical and administrative agencies ignored. If industrial development is to proceed on sound and economic lines, the location of industries should be determined entirely on larger national interest, on the economics of production and distribution. There have been suggestions that the sites of the refineries in the Eastern zone were decided upon on political, rather than economic considerations. There was also, earlier, an unseemly controversy over the location of the steel plants. Any yielding to political and provincial pressure is not only detrimental to our economic development on a competitive basis, but it also weakens the delicate fabric of our national unity.

It is necessary now to examine how far the basic requirements of autonomy and accountability have, in practice, been realised in our expanding field of State enterprises. Once planning and other preliminaries for establishing a production unit have been settled, it is usual to entrust the residual work for its completion and subsequent operation to a Board of Directors. Initially, it was the policy to constitute the Boards with a majority of senior officials, with a leavening of people with industrial and labour backgrounds. Neither elements had any financial or other interests in the efficiency and economy of operations. The contents of autonomy came thus to be regulated largely by the official block, not infrequently acting in accordance with the wishes of their political chiefs. The accustomed methods of departmental work and regulations, the usual leisurely consideration of problems and their unimaginative treatment came to permeate and even dilute the autonomy which was considered essential in public enterprises. The finance representative arrogated to himself, often, the right of veto through the provision for the reservation of an item by the Chairman for the consideration of Government. Non-officials, some wedded to the philosophy of private enterprise, were disinclined to make their weight felt in management. Sometimes decisions were taken by a committee of official Directors, and contracts concluded before they were reported to the Board for ratification. The experience and wisdom of the non-officials came, thus, to be lost in the conduct of the affairs of the concern. To give an example mentioned in the Audit Report of 1958, depreciated machinery, originally costing Rs. 60 lakhs, was hired by Hindustan Steel for a period of less than three years for a sum of Rs. 75 lakhs, Rs. 50 lakhs as rental, Rs. 10 lakhs for spares and Rs. 15 lakhs for labour and supervision on repairs! A non-official Director protested when the agreement already concluded was brought before the Board for confirmation—a voice in the wilderness. The same audit report mentioned also a case of an award of a contract (at the instance of Government by reason of all capital works costing Rs. 10 lakhs requiring Government approval), to a firm of contractors whose organisation, competence and technical knowledge to undertake a work of that magnitude were admittedly inadequate and whose integrity even was in question. Needless to say, assistance on a massive scale and at considerable cost had to be afforded to the contractor to get the work executed, even though these heroic measures failed to secure completion within the time stipulated. Recently, the official as Chairman has been replaced in many of these companies by a non-official, but the basic composition has been left undisturbed.

This brings me to a consideration of a weakness inherent in the organisation of State enterprises. While in a private enterprise, those in control have a direct and continuing interest on its efficient and economic management for a return on the money they have invested, there is no such incentive in a public enterprise. Neither the official nor the non-official Directors have financial or any other stake in the concern. This is not to suggest that there is any dereliction of duty on their part, but to state an obvious position.

The issue of accountability is more complicated. Even in the United Kingdom, where the Members of Parliament exercise a self-imposed restraint in questions and debates on nationalised industries, it has been held: "Whereas parliamentary control is more theoretical than actual, ministerial control is in practice more real than is publicly admitted. By refraining from exercise of their directional powers over the Board and preferring to influence them through consultation, they (the Ministers) escape responsibility." This practice of evading responsibility has diminished public accountability to an extent not contemplated when the concept of autonomous management was accepted. In India too, we have the classic example of the Life Insurance Corporation when its investments were influenced without recourse to a formal directive.

In view of the increasing importance of public enterprises in our economy, the Congress Parliamentary Party appointed a sub-committee to study the questions of autonomy and accountability in all their aspects and make suitable recommendations. The report of the sub-committee makes, indeed, strange reading. The central theme therein runs counter both to the concept of autonomy, as also of accountability. The sub-committee recommends that the Boards should, hereafter, be composed of permanent officials (mostly technical) drawn from the unit itself, with a Chairman named by the Minister with powers to over-ride the Board in all matters relating to management and control. A Board thus constituted will be no more than a committee of management. It will not have any of the attributes of autonomy, nor will it have the benefit of wider knowledge and experience now available in the consideration of its problems. The sub-committee also assigns to the Minister an unusual and unaccustomed role. In its own words, "apart from 'directives,' the Minister may and will give guidance from experience and from a correct appreciation of the constitutional issues. It does not appear to us the correct procedure to lay down the specific issues on which such guidance may or may not be issued. The Government alone should, in the exercise of their responsibility, make this decision and also as to what kind of directive or other procedures should be followed. It may range from a letter to a talk of caution, a discussion, a removal, mild or otherwise". This would enlarge the functions of the Minister beyond his legitimate field of policy-making to the field of executive administration. While strengthening his control, it would diminish parliamentary control to a corresponding extent. By sheltering behind a facade of autonomy, the Minister will escape accountability even though his control over these undertakings will be no less pervading than over his Ministry, for which he is fully accountable. In the ultimate analysis, the recommendations are a negation of the accepted and well-understood concepts of autonomy and accountability.

It may not be out of place to suggest, on the basis of this analysis, a possible solution. When foreign assistance is necessary, the company should appropriately be organised with a mixed ownership. The foreign associates should be allowed participation in equities to the extent of approximately 25 per cent and given a share in management. Another 25 per cent of the equity capital should be made available for public subscription. (This has been recommended by the Estimates Committee in 1955). The public investors should also have a proportionate representation on the Board. While the State should have the controlling financial interest and also controlling representation on the Board, it will have the benefit of foreign investment easing foreign exchange difficulties, technical assistance in management which is now deficient, and public investment and participation in management which will make it broader based. This re-orientation of policy should bring greater realism in planning, competence and wider interest in management and should lastly generate public confidence in the ability of the State enterprises to make a significant contribution towards building a new India, industrially strong and economically viable.

The views expressed in this leaflet do not necessarily represent the views of the Forum of Free Enterprise.

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