SOME ASPECTS OF CORPORATE MANAGEMENT

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

—Eugene Black

INTRODUCTION

For a country which is set on the path of economic development, particularly in the industrial sphere, the progress of the corporate sector is of great significance. The company law and its administration, tax structure and tax incidence, labour and other legislation, the general attitude of the government and the public towards the corporate sector—all these are critical factors in the working of the corporate sector. They can impede or accelerate the growth of the corporate sector.

Since its inception in 1956, among its other activities of economic education, the Forum of Free Enterprise has endeavoured to educate the public on the importance of the corporate sector and the creation of proper conditions for its functioning. It has also sought to create an awareness in the ranks of those in the corporate sector of the new trends and need for greater assumption of social responsibilities. Recently, the Forum inaugurated a series of talks on New Horizons in Corporate Sector.

This booklet brings together three essays based on the speeches delivered. Mr. Steve Dembicki propounds the importance of management development. Mr. C. C. Sutaria examines the decision of the Government to abolish the managing agency system, and its effects on the management of industries. Mrs. Krishna Basrur outlines the social responsibilities of business and industry towards the consumer who should really be the king-pin of the economy in a democratic society.

It is hoped that this booklet will serve the purpose of stimulating public thinking on these important issues so that a proper atmosphere is created for the operation of the corporate sector and it is enabled to contribute its best to the economic development of the country and the raising of the standard of living of the masses.

SOME ASPECTS OF CORPORATE SECTOR

I

MANAGEMENT DEVELOPMENT

By

STEVE DEMBICKI *

A recent survey of senior managers in the United States showed that they consider their three biggest problems to be: (a) shortage of time, (b) difficulty in finding and training subordinate managers, and (c) human relations.

Today there is a tremendous amount of knowledge on management development, but still not enough is known about this complex but important subject.

One philosophy of good management is that ordinary men are capable of being developed to give extraordinary performance. In fact, management is so important that the real gap between the United States and even economically advanced Europe is described by Servan-Schreiber, in his thought-provoking book "THE AMERICAN CHALLENGE", as essentially a management gap and not the technological gap.

A basic reason why the American economy has forged ahead is because of the enormous confidence that the American society places in its citizens, and the continuous education and re-education of its

* Mr. Dembicki, an expert on management, was till recently in India as Chief of Project, I. L. O.

managers and workers. There is also delegation of responsibility which releases the creative forces of initiative and enterprise at all levels.

Some people remain sceptical that management can be taught. However, experience shows that management is being effectively learned. Good intentions and know-how alone are not sufficient for economic progress. Appropriate attitude for implementation of right management philosophy is very important but action is vital.

Just like "leading a horse to water" nobody can be forcibly developed. Authorities and institutions can be forcibly developed. Authorities and institutions can provide a healthy climate and encouragement; but ultimately everyone has to learn for himself|herself. The most important phase of developing managers begins after they have completed their formal academic education. Learning from actual experience under qualified managers is indispensable in learning management techniques.

Three sound principles for effective management development are: (i) selecting the right people, (ii) placing them in the right jobs, and (iii) allowing them to grow in their own interests, as well as for the benefit of the organisation. There are no short-cuts to effective management. However, much valuable knowledge is available for those who seek it. History has repeatedly shown that the issue is of vital importance.

(Please see page 16 for books recommended for further study by the author).

II

ABOLITION OF MANAGING AGENCY & CHANGE IN THE PATTERN OF COMPANY MANAGEMENT

By

C. C. SUTARIA*

Much has been said for and against the controversial issue of abolition of managing agency system and even the strongest critics were hesitant to recommend its abolition "at one stroke". The Company Law Committee reported to mend and not to end the system. The joint-stock committee, though far from supporting it in general, felt that it should continue until such time when its abolition would not create a vacuum. The managing agency inquiry committee under the chairmanship of Dr. I. G. Patel also recommended policy of hastening slowly. This cautious approach was necessary considering the continuous development of capital market and particularly the need for not disturbing public confidence in the Private Sector unduly till capital market was properly organised.

The Committee also recommended to the Government to take a liberal attitude and give a reasonable period of time over which the changeover from the the managing agency system could be done when we have built up sufficient financial and other resources, developed public confidence and talent of professional management as the substitute without hampering the growth of industries and without disturbing their existing pattern.

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* The author is President of Institute of Secretaries and an authority on company law.

It has also been pointed out that the continuity of personal interest and other resources provided by the managing agency system will be lost when the system is abolished for various reasons and the cost of industrial management and administration will be very heavy considering the fact that the managing agents receive remuneration only when profits are earned and not otherwise as in the case of professional management. This very factor of payment by results provides efficient management at economical cost and every member of the managing agency will be in constant and personal touch to prevent any waste of time, money and quality of production.

The main consideration before all of us today is to maintain and even further the pace of economic and industrial development of the country taking into account the change in the pattern of management consequent upon the wholesale abolition of the managing agency system from 1970. In making such a far-reaching decision, we find that Government has been guided by politics and ideologies rather than economic factors.

Since the growth of the industrial sector in our country as in other countries owes a good deal to the corporate form of business organisation, naturally we are all vitally interested in the forms of management of this corporate entity that has been responsible for it.

It has been universally recognised that the successful financing of an enterprise depends on sound and efficient management but nowhere is the truth of this statement as pointedly demonstrated as in India. The managing agency system which arose in this country spread to almost all industrial enterprises. The rise of the managing agents was due to the fact that they filled the role of promoters, managers and financiers and pioneers in many of the newly-established industries in India. They came into prominence because it was they and they alone who could supply a regular team of trained and efficient managers without a break and they gathered strength as it was found that the capital market was shy and that industry looked up to them to pool up idle capital and provide for financial and technical aid. The fact is that apart from managing agents, there were no enterpreneurs of importance who could get the confidence of the investing public or of financial institutions.

As has been aptly stated by the Company Law Committee history, geography and economics all combined to create and develop a system which in some of its distinctive features still retains its unique character.

The Indian managing agency system has indeed been unique, having no counterpart elsewhere, but certain features of the managing agency system have been introduced in the management practices in U.K. and U.S.A. In the U.K., in certain categories of industry, companies are managed by "managers" or "agents" under agreements. In U.S.A., a holding or controlling company becomes interested in a number of concerns to whom all sorts of technical and financial advice are regularly provided. The holding company receives a fee based on net profits for services rendered. This is a managing agency in a different garb and with heavy cost.

Broadly speaking, managing agents in India have performed three important functions; one, they have pioneered new industries and have been instrumental in developing many of the industrial enterprises in India. Secondly, they have drawn idle funds from public in the form of share capital and, thirdly, have themselves provided the finance required for development and management of industries and but for them, many of the industrial enterprises of today would have been non-existent. Viewed in the proper economic background, the managing agency system of finance was, on the whole, both inexpensive and efficient. This has been conceded even by critics of the system. Even for these particular services, which is unique in the industrial history of the world, their charges were not excessive. Many of them advanced moneys to companies on liberal terms, often ready to forego not only the interest but a substantial part of the principal as well. The managing agency system has a decisive advantage over others in the matter of attracting finance for private industry, in the flexibility of its operations, and the standby arrangements it can provide on account of its close and continuous association with industrial undertaking. Finally they have performed the day-to-day management of industries, a work that is performed in other countries by professional managers and advisers. While the managers of today only manage, the managing agents managed as well as financed the industry and provided technical advice at economical cost.

When a company is managed by a managing agency house, the reputation and status of the managing agent inspires confidence and capital issues by such companies are more readily supported by the investors. Besides, the distinct advantage of managing agents over management by Directors or managers is the continued personal attachment since the remuneration of managing agents is linked to profits, and thus there is a strong urge to maximise profits by optimum efficiency, and economy. Because of their wide connections, managing agents have also played an important part in developing exports to earn foreign exchange.

The industrial enterprises that managing agents have brought into being have increased national output and income, provided employment and helped to raise the standard of living, and provided sizeable revenue to Government and adequate return on share capital which professional management of the Public Sector has failed to provide. The chances are that, but for the managing agents, the industrial undertakings which they have promoted and nurtured might not have seen the light of day and the country would have been poorer to that extent.

It is, therefore, doubtful if we can say that management by Board of Directors or by Managing Directors will be an effective and better substitute for management by managing agents. Most of the Directors of our Companies have neither the time not the training for their task. They become Directors only because of their financial and social standing and relations. True men of business with ability for sound management are few. Under the circumstances, the scope for management through whole-time Directors is limited and delegation of responsibility is inevitable. The function of the Directors is to give directions on policy matters and actual management is carried out by others. Unless we have capable and trained persons to take up responsibilities these functions of day-to-day working will have to be delegated to some system of group management or managerial consultancy firms. This will increase the cost. Moreover, there is a paucity of managerial talent.

It is because of the distinct advantages of the managing agency system that the Company Law Committee did not recommend its wholesale abolition from all industries. It is difficult to believe why these counsels of prudence should have been thrown to the winds and the decision taken to abolish all managing agencies by 1970. It is not as a result of the abolition of a particular form of management that industrial development will take place nor concentration of economic power avoided, if that be the aim of the Government. Concentration of power is a far more complex problem and its roots are to be found deeper in the socio-economic institutional framework. In effect, the cost of managing companies will increase, and the remedy will prove worse than the disease.

The Bill to abolish managing agency was passed because of powerful political elements having misconceived ideas and obsessed with the idea of abolishing this system, but the problem which it has failed to solve is that of an alternative form of managerial organisation to replace the same under the prevailing circumstances. If the idea was to abolish the system, the Government should have gradually fostered an alternative, efficient system of management to take the place of managing agents in all industries. This, the Government has failed to do. This tendency to evaluate the performance of any form of corporate management by superhuman standard is bound to be faced with disillusionment sooner rather than later.

However, taking that the decision of the Government now is final, the question now is to consider what can take the place of the managing agency system. This alternative should be an improvement. It should be economical and free of the disadvantages with which the managing agency system has been associated.

It is easy to talk of professional management as in the U.K. and U.S.A. But one has to consider the form of management with reference to the conditions prevailing, and availability of resources in one's own country. Even the advocates of professional management cannot but admit that at present there is a dearth of professional managers. Besides we find that there is an inverse correlation between expectations and actual working.

Coming to the question of remuneration, while managing agents are paid commission contingent on the profits for the year, managers or Managing Directors have to be paid remuneration which is fixed charges irrespective of whether the company makes profits or not and, as such this will be a heavy charge against profits. Companies having managing agents will contemplate appointment of Managing Directors on big salaries and persons holding sizeable holdings in capital without any abilities would aspire to be Managing or Joint Managing Directors. While the managing agents were paid on net profits and therefore economy in management was a must, the managing directors or managers being employees are to be remunerated on monthly salary with a number of perquisities without adequate consideration for returns. The managing director will work only to develop public contacts, to improve his prospects at company's cost and rarely of the concern employing him. Besides, the number of divisional managers who will have to be employed for administration and on the technical side will be an additional burden on the company.

Instead of the commission dependent on profits, persons other than directors will now be appointed to important posts in the company and their remuneration will (unlike that of managing agents) not be subject to Government control as it may not fall withing the purview of Sections 198 & 309 of the Companies Act. Since the system of managing agents has been so deeply rooted and so suitable to the Indian soil, history may repeat itself and in one form or other, the system may come back but with greatly increased cost.

The sins of a few are visits may. For a few black sheep which the Government has failed to control and which are bound to be found in any form of management, must the system as a whole be condemned? The new pattern of management, for lack of able managers will be more costly, and would affect the reasonable return on investment.

In fine, a sudden and hurried step to do away with 674 managing agents existing in different industries is likely to deal a serious blow to the growth of the economy and industrial development.

Books and Periodicals Recommended for Study

1. A Guide to the Companies Act (5th Edition) by A. Ramaiya—(Publishers: Madras Law Journal Office, Madras 4.)
2. Manual of Chartered Institute of Secretaries.
3. Bhandari's "Corporate Law & Management Encyclopaedia".
4. Company "News & Notes" (Govt. Publication).
5. Monthly Bulletin of Institute of Secretaries, (Lentin Chambers, Dalal Street, Bombay-1).

III

SOCIAL RESPONSIBILITIES OF MANAGEMENT TOWARDS CONSUMERS

By

Mrs. KRISHNA BASRUR*

Consumers are suddenly very much in the news and Seminars and Symposia on Consumer-Trader Relations and Consumer Satisfaction are the order of the day. Is this sudden interest in consumer opinion on the part of business merely a superficial concern with its public image or is it a deep feeling of disquiet that things are not what they should be and with a little effort could be made much better? The fact that businessmen are prepared to sacrifice their leisure to listen to consumers suggests that they take their social responsibilities seriously and augurs well for consumer-trader relations.

The primary responsibility of businessmen to consumers is regard for their safety. Yet this right is violated every time foodstuffs are adulterated, defective electrical appliances sold, toys painted with toxic paints or made with sharp metal parts. It is violated when smoking, recognised as a major health hazard, is glamorised to attract young people, when cars are shoddily manufactured, when houses and bridges are likely to collapse due to poor materials.

As a specific instance, I may cite the free sale of Metanil yellow, a prohibited colouring which is sold to consumers asking for edible colouring anywhere in Bombay and perhaps all over India.

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*Mrs. Basrur is Editor of Consumer Guidance Society Bulletin.

In every case where the introduction of a stronger component, a better safety device, or a more sensitive test can make his product safer, the businessman's responsibility is quite clear.

Honesty in dealings and in workmanship are the bedrock on which alone a sound business can be founded. Yet deceptive packaging, deceptive labelling, misrepresentation of goods, and cheating in business deals are not too uncommon. Businessmen seriously concerned about their social responsibility would be performing a real service to society if they would form a joint consumer-trader body to investigate and deal with specific complaints of sharp practices by businessmen from the public.

Honesty in workmanship implies strict quality control. As the market becomes more competitive, this will assume greater importance. Quality control is rarely exercised as strictly as it should be and many well-known firms are slipping badly in this respect.

Adoption of National Standards which would raise the level of our products as a whole and help the average consumer to choose with confidence is regarded as irrelevant for consumer goods though the value of standards has been established in the export trade and in transactions between businessmen.

Any fear that certification will weaken brand names is baseless as the consumer has enough judgment to distinguish between a good and a better buy after use.

If there are legitimate grievances about the working of our standards institutions, these should be taken to the right quarter and redressed and not made an excuse for rejecting certification. Making a proper complaint when there is due cause is a social responsibility but a whispering campaign against our standards institutions will spell the death of all efforts to raise the level of Indian products as a whole.

Ensuring efficient functioning of all products is a major responsibility of business. Regular user tests will help to establish efficiency. Poor functioning due to small defects can be a chronic headache to consumers.

Our people have to spend almost half their lives in queues for water, buses, milk, stamps, rations and whatnot. By not making them queue for kerosene oil, baby foods and edible oils, businessmen will lighten their burden. Maintaining continuity of supplies will create consumer confidence and end one more act of social irresponsibility—hoarding by consumers.

Lastly, business must be forward looking, genuinely interested in raising production, in adopting more efficient techniques and new ideas like care labelling and informative labelling.

We need less of the financier's outlook and more of the true industrialist's approach. The financier works with money. He wants quick and early returns on his investment. If it serves his purpose, he will try to perpetuate a sellers' market by keeping down production and eliminating competition. He exhausts one market and moves on to another.

The true industrialist on the other hand builds a business. He does not exploit it. He wants to stay with it. He will sacrifice an immediate advantage for long-term gains. He works not with money, but with things bearing his name and with people. Therefore he tries to maintain harmonious relations with them. Because he builds for the future and not only for the immediate gain, he strengthens the foundation which he builds. This is the kind of free enterprise in which all of us should believe.

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

SELECTED MANAGEMENT BOOKS

1. "The American Challenge" J. J. Servan—Schreiber—1967
2. "The Autobiography of Andrew Carnegie"
3. "My Years With General Motors" by Alfred P. Sloan
4. "Executives Under Fire" by Chester Burger—1966
5. "Readings in Group Development for Managers and Trainers" —Baumgartel, et al
6. "The New Industrial State" by John Galbraith—1967
7. "Management by Motivation" by Saul W. Gollerman—1968
8. "Applied Imagination" by Alex P. Osborn—1954
9. "Men, Management and Mental Health" by Levinson, et al—1964
10. "Incentive Management" by James F. Lincoln
11. "The Uncommon Man" by Crawford Greenwalt
12. "Managing For Results" by Peter F. Drucker—
13. "The Achieving Society" by David C. McClelland
14. "How to Win Friends and Influence People" by Dale Carnegie—1936
15. "The Managerial Grid" by Blake & Mouton—1964
16. "Why People Buy" by Louis Cheskin—1959
17. "The Executive Skill of Persuasive Listening" by N. M. Atthreya—1969.

"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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Have you joined the Forum?

The Forum of Free Enterprise is a non-political organisation, started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems of the day through booklets and leaflets, meetings, essay competitions, and other means as befit a democratic society.

Membership is open to all who agree with the Manifesto of the Forum. Annual membership fee is Rs. 15|- (entrance fee, Rs. 10|-) and Associate Membership fee, Rs. 7|- only (entrance fee, Rs. 5|-). **Bona fide students** can get our booklets and leaflets by becoming Student Associates on payment of Rs. 3|- only. (No entrance fee).

Write for further particulars (state whether Membership or Student Associateship) to the Secretary, Forum of Free Enterprise, 235, Dr. Dadabhai Naoroji Road, Post Box No. 48-A, Bombay-1.

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