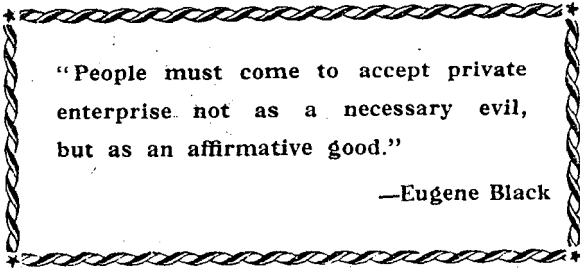


THE FUTURE OF CORPORATE SECTOR IN INDIA

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

—Eugene Black

THE FUTURE OF CORPORATE SECTOR IN INDIA

I

THE CORPORATE SECTOR & POLITICAL PARTIES

J. D. CHOKSI*

Twenty-five years is a long time in the history of a developing nation. We are entitled to see achievements and look for results. Speaking from the standpoint of a non-political industrialist, one discovers that a long and almost complete amnesia has settled on the political leaders of our country, those who count and those who hold the reins of power, so far as the economic sphere is concerned. Unfortunately, we do not live in fairyland so that even if we attribute the quality of beauty to the sleeping princesses and princes that control our destinies, there is no hope if we are to await their awakening.

Obviously, we cannot blame the politicians alone. We put them in the seats of power. We allowed them too much sway over this land of ours. So we of our generation have served the younger generation ill. We allowed them to take control as we thought that we should follow our own bent—professionals and industrialists alike—leaving it to the professional politicians and pundits to form Governments and to shape the economic future of the country. We were wrong. It was clearly our duty to see that this country got

* The author is an authority on corporate finance and law, and is associated with several leading firms. This text is based on a talk delivered under the auspices of the Forum of Free Enterprise in Bombay on June 20, 1968.

along the path of progress and development. Unfortunately free and emancipated India perished on the funeral pyre which consumed the mortal remains of Gandhiji and its ashes scattered along with that of the great emancipator.

It is already very late in the day because 25 years is a long period of time. I should like to make a few observations from the point of view of the corporate sector which are relevant in present day conditions.

A very young man mentioned to me, "Why is it that whenever I open a newspaper and I read that some wrong has been done, Parliament immediately sits down and passes legislation for it?" This is a very wise observation. I thought of it myself. What is the situation in our country at the present moment so far as industry is concerned? If the powers that be, when they came into power, after the first few exciting years were over, had, instead of preparing long dogmatic documents about the future industrial policy, told industry in general, "Look, the field is open; we, as the rulers of this country, are going to see that there is fair play and progress and we look to you to develop the country," one cannot help feeling that the position of industrial India would have been quite different to what it is today. This I think has been said often in different ways.

Amnesia victims, however, can only remember the language and ideals of the Congress of the eighties and nineties of the last century. Still no cause is lost if it is a good one.

Governments and States and political parties are there to see not how men live their workaday lives or earn their daily bread but in the conditions that exist in our country to instil in them greater and greater endeavours for developing production and productivity and higher and higher standards of living.

There are sharks and whales in all seas and oceans in spite of King Neptune. He cannot go about just spearing them with his trident.

Our Government appears to combine the activities of Don Quixote tilting at windmills with the mythical Neptune while a number of fire breathing dragons have let themselves loose on the political scene.

If a team consisting of a first class economist and a first class sociologist and statistician were to make a really analytical study of all the measures of the Central Government, statutory and otherwise, including the recent amendments to the Constitution and the vast range of directives, licences, orders, cancellations of orders, re-orders, acts and decisions of the executing authority even of an industrial nature, and the enormous number of man hours, party hours and even Parliament hours expended, the verdict would probably be that poor India has lost on this count—that her progress has side slipped, the minuses having caught up with the pluses; that constructive measures and acts have been enveloped in a mist of meaningless dogmas and formulae and counter balanced by others moving in the opposite direction.

Before the war broke out, the Broken Hill Corporation of Australia, a steel plant, had about the same capacity as the Tata Iron and Steel Company. Their output was about the same as that of TISCO. Strangely enough, the cost of production was about the same—among the lowest in the world. Immediately after the war the Tata Steel Company was tied by a rigid system of price controls whereby the yield on fresh capital meant a net return of 3% and with that prospect before you, you could not undertake any expansion. When the matter was raised with the Government of India, a very distinguished gentleman, whom I shall not name, was among the powers that be. He said that it was amoral to expand out of pro-

fits ploughed back into the undertaking as proposed by the Steel Company. That could not be done with the result that, while Broken Hill went right ahead from 1½ million to 2 million, 2 million to 2½ million and 2½ million to 3 million and went into diverse production lines, the Tata Steel Company, one of the low-cost producers in the world, was not allowed to expand at all, for ideological reasons. Instead of getting the benefits of an immediate post-wartime economy when demand was very great and prices for capital equipment were still moderate, the Company had to wait a long time before this very same gentleman in the Government of India woke up and said, "I think you are entitled to an element of profit which you will undertake to plough back into the plant." This illustration shows the type of thinking that has determined the economic policies of the Government of India. That instance can be multiplied many times to show that India has become a high cost producer not so much as a result of industrial activity, but on account of thinking at governmental levels. Between 1950 and 1968, the cost of running the Central Government has increased five-fold. The July 1968 issue of the "Reader's Digest", quoting the "Insider's Newsletter", refers to an episode in the industrial life of Yugoslavia which underscores the situation in India:-

In a factory in Zagreb, five special electric bulbs burnt out, not long ago. Replacements from West Germany were obtainable at a cost of approximately Rs. 10. To get them, the firm had to apply to the Yugoslav Bank for permission (three copies); ask for approval of the order (three copies); report the proposal to the National Bank (twelve copies) and request a payment order in German marks (eight copies); assign the bank payment in dinars (four copies). Each of the thirty typewritten documents required two signatures and two rubber stamps. Final estimated cost of the bulbs—Rs. 630.

Does not this true story ring a bell to every industrialist in our country for in essence and fact it typifies the condition in India?

The methods of Government are best analysed in the light of the illustrations of what has happened in regard to certain key or essential industries. Steel, for instance, is a basic commodity. What has happened to the price situation and the present policies of Government in regard to steel distribution? Apparently the industry is suspended in mid-air while the Government performs a feat of levitation in which wise men and sadhus have failed. In May 1967, the industry was told that there was to be complete de-control even in respect of what are known as 'flat products' which cover scarce categories in steel. Nonetheless, the prices for steel for various categories, including the scarce variety, were fixed for a year. A reference to the papers of the last two months will indicate that the Government has referred the question of price increases from May 1967 backwards and forwards between the J.P.C.—a rather ignominious title to the top level representatives of all the major steel units — and Government and Government committees. The J.P.C. is a representative group of persons representing the five large major steel producers of the country — three Government and two in the Public Sector. It was understood in May 1967 that prices would be maintained by the industry for a period of one year. The industry did that notwithstanding the run-away inflation that has taken place, and it was agreed that in May 1968 the whole position would be reviewed and to the industry, it seemed, that after this one year period, they would be left free to fix fair prices—a none too difficult process since only five major units were involved all of whom could be relied upon to act in the public interest, to keep prices at reasonable levels and to do their best to prevent black marketing in scarce categories.

Let us follow the situation as it developed in May 1968 and this is typical. A meeting is held between the Government and the Industry in Calcutta; that means a number of Government officials including a minister travel from Delhi to Calcutta, the J.P.C. foregathers there collecting people from Bombay, Jamshedpur, Burnpur and other places in the country. They come to certain definite conclusions as to what should be done and these conclusions were fairly unanimous, embracing both Public and Private Sectors and the decisions were referred to the Government for action. At that stage a minister of the Government comes to Bombay and says, "What you ask for is too much, let us discuss it over again so that you could bring down your demands." He holds further discussions in Bombay and goes back to Delhi and calls the parties there. Thus, there is again another meeting at Delhi and that meeting means a further gathering of the clans. We all have to make this pilgrimage to the political Mecca but it does the country no good. How does this help industrial development at all? If a decision is to be taken, for goodness sake, take it. Let it be oppressive or unfair but let it be taken straight away, for procrastination is the great destroyer in the path of India's progress.

Let us consider another instance. The Fertiliser Project of Tatas. Unfortunately for that project, the promoters following a long established convention presented a 10-year projection of what they were going to do because the Government wanted a complete picture of the stages of development. When one goes to financial institutions abroad like the World Bank, they require such a 10-year projection. Tatas gave a 10-year projection. It so happened that at the end of the 10-year period, when you added everything up, this particular unit of industry would incur about Rs. 167 crores of capital expenditure. Strange as it may seem, this particular proposal, apart from its intrinsic merit, was rated to cost rather less than other projects

which had already been sanctioned. Yet, some department of the Government which tackles this problem, said, "It looks as if this Private Sector undertaking is going to spend a gigantic amount. Where are we to find rupee resources for this? Where are we to find the foreign exchange?" The proposal was submitted to Government in October 1967. The Government had said that the manufacture of fertilisers was so important that it would give a decision by December of that year. The Company's application for a licence, however, is still pending for further consideration, although the most elaborate presentation was made of the project. This presentation was considered by the Ministry itself, it had to go before the Planning Commission, then to a Committee of Secretaries, from there it travelled back to the Planning Commission, next to a Committee of the Cabinet, then went to the Cabinet, came back from the Cabinet, went back to a Committee of the Cabinet with further reference to the Planning Commission. At each of all these stages public funds have been expended on completely non-developmental, non-productive purposes.

There is no doubt that some of the ladies and gentlemen that comprise the Government of India are persons with a high sense of duty, and some of them are governed by principles of ideology which are lofty and which are worth remembering but should not be followed because they do not make for practical application. The result has been a tremendous amount of public expenditure by the Government in the various departments, considerable expenditure by the particular unit of industry for a completely non-productive purpose. This is certainly not the type of administration which befits a poor country which is trying to develop rapidly.

How these unnecessary delays hold up production and lead to avoidable loss is illustrated by the indecision in this case of the Tata Fertiliser Project. One

objection was that the capital expenditure and the foreign exchange were too high. It was in the neighbourhood of Rs. 50 crores spread over a long period of 10 years. On the estimates of the promoters,—they are realistic estimates—when the plant is in full production, it will save every month about Rs. 6 crores of foreign expenditure and, therefore, Rs. 48 crores in six months. As the Government has already delayed the decision by over six months, Rs. 48 crores of foreign exchange, which would have been saved in six-month period and which would have been sufficient to meet the foreign exchange cost of the project, has been lost. This is where we differ with the Government on its ways of working.

Let us consider another application of this great principle of wastage to which our Government is wedded. In 1956 came the Magna Carta of company legislation—company legislation not company development and progress in industrialisation. The Central Government brought in legislation which provided that the whole of the Companies Acts over the last 75 years prior to 1956 should be amended and consolidated into one Act. This new piece of legislation had been snowballing for a number of years prior to 1956. It grew and grew and when finally the consolidated Act of 1956 was presented in Parliament, there were no less than 860 sections of the Act along with 12 schedules. The goal, it seemed, had been reached and company legislation, it seemed at last, would be given a rest. Its sponsors had proudly proclaimed that it was the greatest, as it was certainly the longest piece of legislation of its kind anywhere in the world. This legislation reserves a large area of its surface to company management and control—particularly of the managing agent.

The thesis of wastage, referred to earlier, applies with great force to the treatment of company legislation, for the Act of 1956 was followed by four major

amendment Acts in 1960, 1962, 1963 and 1964, and now comes the fifth in 1968, which provides for the abolition of the managing agency system. They say one good custom may corrupt the world, but a good custom, if it is properly followed, is to be preferred to a new custom or system even if the latter is thought to be better because people are settled in their views and habits and practice in one system makes for perfection. The managing agency system is no more than a matter of organisation and organisational structure. Unfortunately, this is not sufficiently recognised and management theorists have tried to develop a science of administration relevant to all types of production. "It should not be the policy of a government," as a high official of the British Government has stated, "... to regulate the types of management at all." In all cases, a pragmatic approach, he claims, is necessary because what is good in a given set of conditions or in a given industry does not apply to other industries.

Companies cannot govern themselves nor can they be governed by an Act of Parliament nor by the most elaborate and incisive code of regulations provided by any Act of Parliament or by regulations and executive orders. They have to be run by human being and it makes little difference if one is a managing agent and another a managing director. Why should the managing director remain and the managing agent be abolished? The logic is difficult to follow.

They tell us that the managing agency system has developed into concentration of economic power because the managing agent runs different industries. Why bother about an organisational structure? We are concerned with results, with the progress and success of corporate bodies, with efficient and honest management in the interest of shareholders and the country alike; but this Government of ours is wedded to legislative action on the slightest provocation.

It is perhaps too late in the day to contest the abolition of the managing agency system, which in 1956, the Central Government and the political leaders very clearly concluded that the system needed not to be abolished but to be well regulated. The system has been in operation for over a 100 years. J. N. Tata, that great builder of modern industrial India, when he started the Empress Mills, decided he would be its Managing Agent, and said, "I will not take a remuneration from the Company, I will only take a small share of the profit," and that share was kept at 5% in the early days as the project was a somewhat novel one situated in a non-industrial centre — Nagpur — which, however, was close to cotton growing districts. He was one of the original managing agents. There were others before him on the Bengal side. Unfortunately, a slur has been cast on the managing agency system and the system was made a scapegoat.

As readers probably know, the destruction of the managing agency system has been the *mantra* of Congress and other certain parties alike. Almost supernatural powers have been attributed to this system.

Congress power and pressure groups, as certain other groups, even considered that it was a cancer in the body of the Republic, to be destroyed before it destroyed the socialist economy of the country and democracy itself.

Some of the defeats and reversals suffered by the Congress in the last elections were attributed to it. Hence it was one of the first item on the list of the Congress 'firsts' on re-assumption of power at the Centre after the elections.

As stated earlier, we claim that the body corporate should be allowed to choose its own form of management provided these are not oppressive to the public or operate to the detriment of the common good.

The only argument to be given consideration in examining this problem of managing agents is whether management of a large number of industries brings in its wake a concentration of management power such as would be tantamount to economic power.

A comprehensive examination of the powers and duties of managing agents, the restrictions placed by the Company Law on the exercise of the management functions by managing agents all clearly establish that there is no scope for the development of a concentration of economic power under management contracts or by virtue of the exercise of powers by a managing agent. In every important field, finance, that is, the power to borrow and provide finance, investment, projects of expansion, development, entry into new fields, foreign collaboration and increases in the share capital of corporate bodies managed by the managing agents, in all these there are curbs, restrictions and sanctions imposed not merely by the company in general meeting, whose approval is to be obtained, but also in most cases by the Government itself.

Therefore, after all concentration of verbal power that has gone into the Company Law provisions, to which reference has been made, it is an amazing instance of the complete waste of public funds and public time for the system now to be thrown overboard. The better managing agents have always provided comprehensive management services beyond the strict requirements of the law. Services which, apart from the co-ordination and planning of development programmes and undertaking the responsibility for provision of funds to the managed company and by the giving of guarantees for loans and the like, also include a number of services and departments covering financial, personnel and legal services, supervision of management training, depart-

ment of economics and statistics, labour bureaus and the like.

The conclusion seems irresistible that the more developed a management system becomes and, therefore, adds strength and soundness to a particular company or a particular group of companies and to development into diverse fields, certain destructive coercive influences basing themselves on 19th century ideology, assert themselves to destroy and if not to destroy, to hamper and impede industrial development in the Private Sector.

Do our rulers sincerely believe that abolition of the system of managing agents will provide a solution to management problems and to the still greater problems of the development of industry, production, productivity and the curing of all the 101 deficiencies that exist in the Indian economy? The writing is clear on the wall. A well-proven system will be cancelled out and may result in dummy forms of management whereby the real powers in control of companies will operate through their representatives on the boards of management of companies. We may even see in this country a recurrence of what took place in the U.S. in the nineties, where, through pyramiding, control over a number of units in one industrial field or in several industrial fields was concentrated in the hands of a single apex giant. When this happens there will be several tons of legislation to identify the new giant and to destroy him.

Years ago, there was a commission consisting of a judge of the Supreme Court, a very distinguished auditor, and another professional man, who went into the activities of a certain group of companies. They came to certain decisions and the Government was gnashing its teeth. "Look at all that has happened in the Private Sector; we will bring these people to

book." Nothing was done about the report of that commission but it gave the Government an opportunity to indulge in its costly pastime and to bring in further legislation. It is always applying steam hammers to crack nuts. In fact, the Company Law Ministry itself has said that since the 1956 Act, many of the abuses of the managing agency system disappeared by virtue of the strict regulations provided under that Act. One would have thought, therefore, there was no need now to cancel out the system but scapegoats come in useful.

Our Constitution has in 18 years gone through some 20 amendments. Constitutions elsewhere in the world have not been changed for centuries. What one objects to is not the inventiveness of the official mind or the political mind, but the inability to see the cost of it.

One last illustration. Many years ago when the licensing system was first started, industrial institutions were asked to submit forms with the utmost details in connection with the applications for certain new industrial units. When these applications were submitted, the Government said that they should only be submitted in a prescribed form and the prescribed forms could be obtained for the purpose. When an application was made for a form, we were told these have not been printed yet.

When you multiply this hundred-fold, some measure of the deterioration that has set in may be seen. Our country is not managed from the business standpoint. This country should be so managed. Idealists may pass a number of laws on social and other matters but when they come to economic subjects, let them leave us alone and let us get along with the progress of the country.

The Forum of Free Enterprise has recently produced a paper concerning the expenditure on certain

public undertakings. It is clear from a study of this paper that if one were to consider the case of two undertakings with the same capital structure, with the same assets available to them and with the same financial backing and resources—one in the Private Sector and the other in the Public Sector—in 99 times out of 100 the cost of operation in the Private Sector will be less even though the Private Sector will pay better wages. One reason is that non-productive expenditure will be paramount in the Government sector undertaking since almost everything has to be referred back to the Ministry. The Ministry will advise, the papers will be returned and when you produce a ton of paper you get an ounce of advice. This is the sort of situation which one would like to see disappear from our country. Far be it for one to claim that the Government should take the Private Sector into their full confidence. But if there was a convention under which, on a purely voluntary, honorary basis, committees of various industries, localised in character, so that travel from place to place is eliminated, were formed, to advise Government on the activities of their particular industries and suggest ways and means for their promotion and development a measure of progress could be obtained. In countries which have developed fast, there is close rapport between industry and Government. People in business and industry are as good patriots as anyone else. They would like to be close to their Government, whether it be a Congress Government or a Swatantra Government or a coalition Government. They would like to see economic development of the country.

There is another topic of importance concerning the corporate world and that is the subject of contribution to political funds which is proposed to be banned by the most recent Company Bill on the anvil. This Bill provides, in addition to the abolition of the managing agency system, for the prohibi-

tion of all contributions by companies to political parties, individuals or other bodies for political purposes. The sanest and most effective comment on this measure comes from the greatest personality on the Indian political scene, Mr. C. Rajagopalachari, in his article in "Swarajya" of the 25th May. He emphasises the immorality of the Government's present view at a time when it seemed that Congress was no longer the sole recipient of funds from business big and small alike for political purposes.

After swallowing a 100 camels and much more, the Congress party now says that it wants to ban company donations to political parties. Previously they were the sole recipient of the 'tribute' demanded of industry, business and commerce, and individuals alike. But other parties have been in the hunt and are sharing in the spoils. However, the matter cannot be judged from the standpoint of the political parties themselves. One may attempt to place the horse before the cart. If so, it certainly does seem necessary and the order of priority requires that before these political contributions are banned, it must be made possible for political parties to carry out election campaigns. Therefore, there is room for bringing about a gradual elimination of contributions by corporate bodies to political parties. An intermediate stage may provide for a better control over the expenditure of individual candidates as well as over the total expenditure of an election campaign. This could be achieved by requiring that all such contributions should be made to some independent non-political organisation, which will maintain a proper account of the funds, keep them separate for each party according to the contributions made to that party. The only condition will be that the party who receives the funds contributed to it will submit all payments from this independent budget for auditing. In a poor country like ours, when we want to keep the cost of elections fairly low, it may be that the

State itself may have to make a contribution. It is true that there will still be all kinds of moves to get around any such proposal, for black money is more popular than any other money both with the rulers and with a section of the ruled. However, let us make a beginning to build up a sane, sound and honest electioneering system.

A careful scrutiny and check should be maintained on all such election funds which should be subjected to some form of audit control. It is probable that no foolproof system of control could be devised but certainly some measure of control is possible.

It would be a good thing if all the political parties agree to a measure of control over their funds, for a clean system of elections must result ultimately in clean and sound administration.

In the final analysis, corporations and industries should be placed above politics but always subject to the laws of the nation. When this is done perhaps less of Parliament's precious time will be taken by inquiries into the acts and defaults of individuals and individual companies to the advantage of the country.

II

THE STOCK-HOLDERS AND THE END OF THE MANAGING AGENCY

By

S. L. KIRLOSKAR*

The propriety of stoking up the managing agency debate at this hour of day may be questioned. The bill to clean it up is on the anvil. And, thanks to our democratic process and the composition of our Parliament, where economics is swiftly going under every day before considerations of political expediency, the chances of the system's survival seem pretty dim.

Besides, the younger element is gaining ascendancy everywhere—in business, in professions and, not least, in politics. This is natural. The older, pre-war generation is now entering its sixties, and will soon fade out. The generation that grew up on this side of the Second World War must quite obviously fill the vacancies. But the young and the o'd are separated not merely by the factor of their respective ages. Having lived and worked on both sides of the war, the older generation has had the advantage of knowing what it was to work under a system of relative economic freedom, and what it means now to work under one of control and restraint. The young alas, never had this privilege, and have been conditioned to accept economic restraint as the most natural order of things.

The social and economic thought of the fifties and sixties has also been conducive to the development of this frame of mind. In this process, some of our economic institutions which grew up many long

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decades ago in response to felt needs, and which have NOT yet outlived their utility, have come under a wild fire.

The managing agency is one of these.

But I have yet to read or hear a decisive case being made against it as a "system"—let us forget the individual black sheep. The Monopolies Commission failed to clinch the case against it. A recent committee appointed by the Central Government to assess its present performance and future need has not done better either.

Yet the jihad against it goes on; and before long, it *may* crumble under the sheer coercive power of the state. Still there are two good reasons for reassessing the system.

First, it is still necessary—indeed more so now than ever before—to bring out the "core" of the system which has a tremendous contemporary relevance. I do not think this can be said of the alternatives that are being canvassed. Second, I believe that the decision or desire to abolish the system is chiefly—perhaps even wholly—political. Economic logic does not support it. And I am very much worried over the probable economic effects of an action which is inspired chiefly by political motive. I am not worried for myself or for a specific class interest. My concern is for a whole people.

Let us first look into the core of the system. Its abuses in individual instances are quite irrelevant here. The system had been typically a response and an answer to two basic scarcities—scarcity of venture capital and scarcity of entrepreneurial talent. This was so over a century ago. I do not think the situation has materially altered to this day. This must clearly be borne in mind—especially by the stockholders. For they are apt to be misled by the contemporary fact of the apparent availability of capital

from State agencies, and of the emergence of the professional manager. If these two were complete substitutes for the older arrangement, my defence of the agency system could fairly have been construed as a kind of "special pleading".

I shall show you that the two are not even good enough substitutes for the agency system. Take professional management. I am using the term to include the proposed director-manager form of business organisation.

A professional manager, whether he is a salaried executive or a managing-director, is a bit of a 'soldier of fortune!' I mean no offence in describing him this way. It is an inherent feature of this system. Nor am I saying anything about the recognised managerial qualities of acumen, courage, vision etc., which he may possess in just about the right proportion. The crucial fact is that his association with his organisation is purely professional. His basic interest lies in obtaining a *quid pro quo* for the service he renders. His reward is set by contract and does not depend upon the profits of the organisation, so long as he remains on its pay-roll.

Now admittedly there is nothing wrong in this kind of relationship so far as the routine conduct of a business enterprise is concerned. But when it comes to *expanding* and *developing* it further, something more than professionalism is called for. This is just about what the managing agency has always offered to the Indian corporate sector—something which cannot be readily assumed of the alternative forms.

What is this quality? I would call it 'esprit de corps'—a quality which is difficult to define and almost impossible to quantify in terms of remuneration. I would describe it as the value of team work and consultation and discussion among the higher executives. It is here that the problems of various managed companies with their scores of departments

are discussed and decided upon informally, but seriously. Solutions are found and innovations are made mainly because there is a pooling of experience and—very important—identity of interests.

It is this spirit of camaraderie which also made it possible for the managing agency to provide or underwrite venture capital which was proverbially shy in the old days, and which still retains this attribute in some measure. A distinct service which the agency system rendered to Indian society was to alter the investor's preference from being a money-lender to becoming an equity-holder. I can boldly claim that this was the system's *tour de force* before the war, and that it is very much so even now.

The capital market has been sick since 1963. But if you look to the period from the end of the war to that year, you will not fail to notice that it was nearly always the name and reputation of an agency house which influenced consumer preference in the capital market. I am afraid there is little in the director-manager form which would always assure this rapport between an enterprise and its share-holders. This is because the proposed form lacks the quality of continuity and permanence which the agency system enjoyed by virtue of the logic of its structure and operation.

This is not all. I can say it from experience that, as between the two systems of business management, it is the agency system which has much more often been responsible for the growth and development of its charges.

Growth and development do not refer merely to increase in a firm's scale of operations. I would even say that mere expansion, whether at arithmetic or geometric progression, need not always require the kind of acumen and foresight which TYPICALLY belong to an ENTREPRENEUR. Other things be-

ing equal, you can safely trust a professional manager of a GOING CONCERN to make it GROW in SIZE.

But growth and development is much more and different than simply a matter of quantity, scale or numbers. It means quality; variety; new and untried lines of manufacture; different techniques and methods of producing the same commodity; developing new markets; CREATING consumer demand where none existed before; a shift from primitive to sophisticated products—and many more things.

Had it not been so, why should India desperately try to move from primary to secondary, and then to tertiary industries? Indeed, this is how growth and development are understood and measured; not by the crude yardstick of the *quantity* of national income alone. To return to the point, growth and development in this sense has much more often been the achievement of the agency system. This exercise initially involves a high capital outlay locked up for months and even years in new products or techniques which are being developed. The existing lines of manufacture have to bear this burden during the gestation lag of new products. This would often mean high costs and lower profits—hence LOWER and sometimes NO remuneration to managing agents.

Per contra, in the director-manager form, the chief executive is apt to play it safe and to concentrate his energy and resources on the established lines of product manufacture, for fear of scaring away the stock-holders and new investors who can judge his performance only in terms of the way he totes up his annual balance sheet.

The agency system was *designed* to take always a long view. It took the gestation lags in stride—confident all the while that due to its name and reputation, it would carry the investor with it and reward him more fully later, when the gestation lag was over.

All this was due primarily to the system's readiness to sacrifice present gains to future profits and prosperity. This, as I see it, has been the prime factor in the growth of the private corporate sector in India to this day.

All of us should focus our attention on these two words: growth and development. They have been the catchwords of all our Plan documents. Modern economic vocabulary cannot do without them. Our politicians feel empty and vapid if they don't use them wholesale in their speeches. The campus economist will have his contract terminated at the end of his first tenure if he doesn't mystify both his colleagues and the planners in Delhi with his econometric models of growth and development. But while all these persons WRITE, SPEAK AND INTERPRET growth and development, private business has been DOING it. And private business largely meant until recently the agency system of management.

If then there is no conflict at all between what the agency system has achieved and what our Plans hope to achieve, why is the system being eliminated from the corporate scene?

- Is it because Government has discovered better methods of business management?
- Or because the system has created concentration of wealth and income? Of economic power?
- Or because economic amateurs are in the saddle and are riding the country?

Whatever replaces the agency system must be shown and seen to be better in each one of those respects in which the agency system has been accused of inadequacy. The only accusation which I find being repeated over and over again is that of feather-bedding by the managing agents. This charge clearly

sounds hollow in the light of the stringent company legislation which, after its intended revision, will plug practically all the loopholes from the corporate scene. If there remain any, I am not sure that they will not be fully exploited through the proposed alternative forms of management.

The agency system simply cannot be accused of having created concentration of wealth and income. The Monopolies Commission wisely avoids saying it. This because the phenomenon has been found to exist in other countries even under the director-manager system which is being commended to India now!

I am afraid there is no getting away then from the third possibility, viz., that the economic affairs of the country are being run by amateurs who are making a bid to rise to the commanding heights with the help of the political machine fashioned over the last twenty years.

It is obvious what we would be in for through policies which are being inspired by other than economic motives. The proposed abolition of the managing agency is just one example. There are scores of others where Government has been chopping away, not the deadwood of our economy, but the main-springs of its growth.

The views expressed in this booklet are not necessarily the views of the

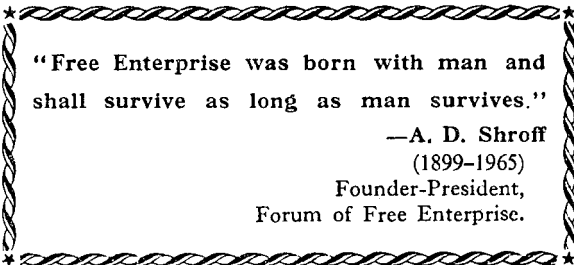
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APPENDIX

Distribution of Managing Agents as on 31st March 1967

No. of Companies managed by each (1)	No. of managing agents (2)	companies (Col. 2 x Col. 1) No. of managed (3)
1	394	394
2	35	70
3	14	42
4	12	48
5	6	30
6	5	30
7	4	28
8	5	40
9	2	18
10	2	20
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	<u>31-3-1963</u>	<u>31-3-1956</u>
Companies at work	25,524	29,874
Companies having managing agents	1,450	5,055



“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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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.

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