CHAPTER-VIII

OVERALL REVIEW, RECOMMENDATIONS AND CONCLUSION

8.1 Introduction

National contribution of company form of business is beyond doubt. It has already been recognised and established all over the world that business houses, mainly organised in the form of companies, has a clear role in the formulation of economic, political and social objectives and policies of Govt. of any country and India is not an exception. The ladder of such business-houses is, no doubt, the management pattern. Its relevance is all the more important in developing countries. Our Govt. is also trying to revamp and rationalise the existing pattern of company management through different legislations and control. Sincerity on the part of the Govt. is commendable, no doubt, but for reasons more than one, the effective and desired result has not yet been achieved. That necessitates innumerable amendments of existing laws and imposition of new laws over the years. By such amendments and new legislations more problems have been created rather than its solution.

We have endeavoured to present detailed analysis of multifarious problems regarding the company management in our studies and tried to give some concrete suggestions which might help to overcome the prevailing hurdles and to achieve the desired results.

Different chapters have dealt with different aspects of of company management starting with its historical aspect. Empirical analysis has also been offered in relevant chapters with reference to as many as seventy-five public limited companies in the private sector to highlight our studies.

We have endeavoured to set forth our main approach and findings in different chapters in brief and show the suggestion for effective company management in this concluding chapter.

8.2 Summary of the preceeding chapters :

In the introductory chapter we have dealt with the structure of the company management in India. Our endeavour has been concentrated to top management structure of the private sector companies only. We have tried to highlight some of the inherent defects of the company law of India for which responsibilities undertaken by the private sector companies could not be fulfilled satisfactorily by them as it was expected of them to ameliorate the sufferings of the masses. Businessmen in India are of the opinion that they are performing their activities remaining within the purview of the company law as far as possible and sometimes overstraining themselves to bring about the true economic well-being of the country. They hold that Govt. control and regulations are in the way of their full-fledged effectiveness. On the other hand, Govt.'s view is that the progress so far achieved is due to the regulated economy and constant vigilance on all the economic activities of the nation including company management. In the present day context, in every country, as company management is regarded as the most important architect of national prosperity and as in it, so many persons and so much amount of wealth are involved, Govt. can not remain an indifferent spectator. Therefore, regulation is needed no doubt, but that must be in the form of statutory and Mandarin type, regulated by legislative rather than administrative control but provisions must be there for inflicting severe punishment on those who will violate the law. After forty years of independence, not being satisfied with the result of preponderance given on the public sector over the private sector and with the strict regulation so far made, present Govt. is thinking of alternative means to accelerate Indian economy to reach the new era of the 21st century. This movement started since 1985. Let us hope for the better. We earnestly believe that the aspiration of the Govt. may be fulfilled if traditional structure of the company management is reconstituted as suggested by us in Chapter VI.

In the second chapter, we have discussed the history of company legislation in India, the first enactment being made in the year 1850 and thereafter in 1913, 1936 and 1956. Afterwards, every year, upto the date, the Act had been amended several times to keep pace with the changing circumstances. There had been also see-changes in the management structure in four stages. During the first period, 1850-1946 management of the company had been in the hands of foreign managing agents although seeds of Indian managing agency firms germinated and developed. The board of directors as an organ of management had been completely eclipsed. In the second stage after independence, i.e. in 1947-1955, there had been abolition of foreign managing agents and since then efforts were being made to give authority to the board of directors for the management of the company. In the third stage, ie. during the period, 1956-1970, the most remarkable event in the history of company management in India, among many other things, was the abolition of the managing agency system including the law-made executive organ of management, namely, secretaries and treasurers from the soil of India on and from the third day of April, 1970. In the fourth stage i.e. during the period 1971 upto date, development took place regarding the dispersal of shareholdings as a result of the enforcement of the FERA and MRTP Act and also in the ascendancy of the management pattern by board with the managing director. Incentive also came in investment by non-resident Indians in Indian Companies. There were also emergence of joint sector enterprises and dependence of private sector companies on the financial institution for finance etc. etc. Review of the structure of Company Act, 1956 including amendments thereon reveal among many other things, the unpopularity of the management by manager, severe restrictions on appointment and remuneration of the managing director, active interference of the Govt. by the abolition of the existing board replacing it by the nominees of the Govt. by virtue of the section 40 of the Companies Amendment Act, 1974 making compulsory for the appointment of a qualified company secretary of a company having a paid-up capital of Rs.25 lakhs or more. This Act tried to (i) fix up minimum standard of business integrity, (ii) make full and fair disclosure, (iii) assure effective participation by the share-holders in management to protect the interest of the share-holders in one-hand and company and society on the other, (iv) enforce proper performance by the company management and above all, (v) arrange provision for the investigation of the affairs of management to uphold public interest. But the amendments so far made and development occurred, they, instead of solving the problems, aggravated them.

In the third chapter, intricate studies have been made on some recent problems which have cropped up and require immediate solutions, such as, (i) non-registration of shares held both by the resident and non-resident Indians and Govt.'s role in this matter in view of the fact of pouring in of foreign exchange by investments made by them to the Indian Companies, mobility and transferability of shares, and fair and unfair take-over bids; (ii) persistent demand of the working force for participation in management and capital in the top management of the companies in which they are employed, there being propriety of this issue as guaranteed by our constitution and its successful implementation with good result in different developed countries of the world; (iii) the problem of economic power which still subsists and dictates the management paralysing the effectiveness of the board of directors; (iv) problem of public accountability and professionalisation of management etc. It has been explained that these problems could be easily minimised by introducing the Multiple Two-Tier Board of Management - a new style of management technique enunciated by us.

The Fourth Chapter contains the description of the fact that our Constitution contains many provisions to control economy vis-a-vis company management. Within the scope of our constitution, structure of the company management can be reconstituted to make it more effective, economically viable and socially responsive.

The Fifth chapter contains different types of company management practised in different parts of the world, their features and lessons from those management patterns which can gainfully be implemented in Indian structure of company management which will suit the Indian condition and environment.

In the Sixth chapter discussions have been made to highlight the joint sector movement in India, its further development due to emergence of shifting of economic power by the Govt. to companies for nationalisation of all the financial establishments in different stages. Change of ownership of capital must bring about the change of the structure of management and thus the establishment of the joint sector will pave the way towards the new format of company management - the Multiple Two-Tier Board. It is a developed form of joint-sector wherein all the ingredients who form the company will represent on the Policy Board. The executive board will consist of professional employees. It embodies in it most of the good lessons derived from the company management practised in different countries of the world. The development of contemporary situations in the process of evolution has created scope for its origin. It is suited to the tradition, culture and heritage of Indian ethos. It is within the purview of our Constitution and expected to fulfil the aspirations of the framers of our Constitution. It will make the companies not only viable from the economic point of view but will also convert them into social institutions to serve the public interest more creditably.

Our seventh chapter contains the review of the structure of the top management of seventy-five companies on the basis of the Annual Reports of those Companies (1983-84). This review reveals many interesting features of which the most important are the preponderance of the company management by a board with a managing director, emergence of the Two-Tier Board, dependence of the companies on the banks and financial institutions for the capital. But at present, there is no such proportional representation by those banks, financial institutions and Government. There is no trace of workers' participation but there is only a single case of people's representation on the board. There is a substantial number of executive directors. Although they claim to be professionals, the fact is that professionals are only a few in number. There is only one company which is managed by board with manager.

8.3 Some specific suggestions :

Broad suggestions have already been given in each chapter. In addition, some specific suggestions are also given below to achieve the objective :

1) Workers' participation in management :

Inspite of the constitutional guarantee and the increasing demand by the labour force for their representation to the Board of Directors, we have noticed no trace of workers' participation in top management of the seventy five companies reviewed by us (Chapter VII). We recommend that one third of the total number of members of the Board of Directors should be workers' representatives. Regarding method of election and all other matters we are fully in agreement with the recommendations of the High-Powered Expert Committee on Companies and MRTP Act, August 1978 Chapter XI. The recommendations of the said committee in this regard is not only rational and justified but also adaptable in the present context of the Indian Company Management.

<u>Govt.'s policy as regards workers' participation in Company Management</u> :

Regarding workers' participation in company management, Govt. of India has enacted law to appoint a worker director to the board of the public sector enterprises (1983 guide lines). Over and above Union Govt.'s decision to make it obligatory for the private corporate sector to provide for a minimum of 5 per cent share-holding in favour of workers and staff in case of new capital issue and introduction of special class of salary-savings-linked convertible debenture issue for the employees in the private sector, where, they would have the option to buy the same at a pre-determined fair formula or at 80 per cent of the average prevailing price of the shares in the stock market[1]; these are in right direction towards workers' participation in capital which will ultimately elevate the principle of workers' participation in management. In New Delhi, on July 10, 1985 Mr. V.P. Singh, the then Minister-in-Charge, Finance and Industry Govt. of India said, "The Govt. is considering to evolve a new scheme whereby the financial institutions while offloading shares in bulk, would earmark for certain percentage for offloading in favour of workers and staff.[2]"

ii) <u>Introduction of Two-Tier Board</u> :

There is a great necessity of introducing Two-Tier Board

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1. The Economic Times, Calcutta, July 11, 1985.

2. Ibid. July 11, 1985.

system of company management in India. This system has proved successful in Germany and other European countries. Mr. S.K. Bhattacharyya, an ardent advocate of Two-Tier Board, states in his article, "The Two-Tier Board is a much more pragmatic and feasible proposition in the specific Indian context. The problem of manning the Supervisory Boards by professionals, academics and senior business executives is not really insuperable, given the array of talents available to-day. It can be implemented provided the personnel for the supervisory Boards accept that the guidelines regarding their appointment, tenure and compensation are reasonable and attractive. There is good evidence to believe that many large companies would like to sponsor their executives to supervisory Board of other companies."[3] Nationalised Commercial Banks being suppliers of major working capital and sending representatives to the board to the companies as authorised by share-holders can make the board effective. We are also of the opinion that German system of representation through banks on behalf of the share-holders who authorise their banks to represent to the board should be introduced in India. The following lines by an eminent author are worthmentioning here who is also in favour of Two-Tier Board :

"When a board consists largely of outside directors, the directors are in any case forced into a sort of supervisory role by the limited time and the limited information they have,

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3. Bhattacharyya S.K. Article, The Two-Tier Board. A response to the current legal and Managerial Dilema in the Book : 'Board of Directors in India': Their States and Dynamics. All India Management Association, New Delhi, Edn. 1983, edited by S.K. Chakraborty, P-29.

and the actual management comes to devolve on the executive management committee which meets frequently and conducts the day-to-day affairs of the company. In such a situation irrespective of the legal form, the result is for all practical purposes a two-tier board."[4] It is very difficult to know why High-Powered Expert Committee on Companies and MRTP Acts outwardly rejected the possibility of introduction of two-tier board in the companies of the private sector regarding their management in India. But for all practical purposes there are traces of Divisional Management Board system in Guest-Keen Williams, Tata Iron and Steel Company, A.C.C. Companies etc. This trend is visible in India. We recommend positively for its introduction with some modification as set forth in Chapter VI.

iii) <u>Proportionate Representation according to share-holdings to be made mandatory</u> :

In order to make the true democratic organisation, proportionate representation of share-holding must be introduced immediately in respect of share-holding both by private individuals and financial institutions. This method will not be applicable in case of workers' directors or representation by the banks and financial institutions which look after the amount of money granted as loan by them for proper utilisation. It is not also applicable in case of Government's nominee to the board

4. Sengupta Dr. N.K. - changing pattern of Corporate Management, Vikas Publishing House, New Delhi, 2nd revised edn., 1983, P-276.

for statutory purposes or to represent customers or suppliers for upholding the public interest. This method will encourage in one hand greater range of disclosure resulting enhancement of accountability to all the ingredients which form a company and on the other hand, concentration of the economic power would be controlled and checked automatically. Under these circumstances, we recommend the enforcement of sections 262 and 265 of the Companies Act as mandatory.

iv) <u>Professionalisation of Company Management</u> :

The question of professionalisation is interlinked with the question of two-tier management. It has already been mentioned that the policy board is to be constituted of the mixed bag of substantial number of professional personnel from different segments. The executive board must be formed with employee professionals having experience and technical knowledge, sincerity and independent decision making powers. Growing establishment of management education in India has also encouraged the movement towards professionalisation of company management in India. Though the process started after the independence, it was accelerated as a result of the FERA, 1973 which required every foreign company to reduce foreign holding to 40 per cent unless it was mainly engaged in certain specified priority industries or in activities involving sophisticated technology or exports. It is evident that "at the end of FERA process there were only about 180 foreign controlled companies with more than 40 per cent foreign sharing and few foreign branches as against some 882 foreign companies and branches in 1974."[5] Introduction of the FERA requires high technology in producing export quality sophisticated goods. It also causes wide dispersal of shareholdings due to the policy of Indianisation. Both these causes indirectly encouraged professionalisation of the company management in India.

Another important point which deserves to be mentioned here form the point of view of corporate management in India is that "There were about 228 Indian Joint Ventures with investment of over Rs.1200 million functioning in about 40 countries on Ist. July, 1982."[6]

This will certainly effect the inflow of foreign capital in one hand and outflow of Indian managerial technology in abroad. This has also unfolded the scope of professionalisation of company management. This movement is to be encouraged.

Dispersal of shareholdings causes professionalisation. Here in India apart from the FERA, wide dispersal of shareholdings has already been started by the introduction of MRTP Act and the Capital Issues Control Act which forced Companies to issue new shares or convertible debentures to the public whenever they applied for expansion. These companies directly approach public subscribers for convertible debentures in order to weaken

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5. Answer to Lok Sabha, Q.No.241, July, 1982.

6. Op.cit. Sengupta Dr. N.K. Changing Patterns of Corporate Management, P-287.

the holding of the public financial institutions on account of convertible clause stipulated by those institutions since 1971 in their long term loan agreements. Professionalisation of company management should immediately be introduced in India in order to make the company management flexible, adaptable, more visible from economic and social point of view.

v) <u>Registration of shares and investment by non-resident Indians</u> :

Problem of shareholding and registration thereof by the non-resident Indians : The news published in the Economic Times, Calcutta on the 30th of June, 1985 which states that non-resident Indians have acquired substantial stake by way of shares in about 20 companies, causing threat to the management of few companies. They have bought shares of both new and old companies and some sick units as well. Some of the non-residents have expressed willingness to buy shares even at a high premium and a large number of applications are still pending with the Reserve Bank of India. Striking off section 111 of the Companies Act which is related to share registration in respect of listed companies is understood to have encouraged the NRIs to enter the market.[7]

Investment in shares by non-resident Indians has already created problems specially after the decisions issued by the judgement given by the Bombay High Court in the case of Mr. Swaraj Pal VS Escot D.C.M. Ltd. At last, the Supreme Court

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7. The Economic Times, Calcutta June 30th, 1985.

issued final verdict in favour of L.I.C. and others declaring the action of the Reserve Bank of India 'legal' and thus it has solved the problem of registration of shares by the non-resident Indians at least to some extent. The decision of the legality of the claim of Mr. Chhabria for the purchase of the major part of shares of Shaw Walles and Co. is still pending before the Company Law Board. The investment potentialities of the non-resident Indians should be fully utilised in order to overcome the foreign exchange crisis from which India has been suffering for the last two decades. Provisions should be made so that non-resident Indians are encouraged to invest their potentialities in greater extent in Indian Companies. This project has given birth to managerial problems when the investment is sufficient enough of equity stake to over-throw the existing set of management.

As a process of liberalisation movement, the Reserve Bank brought radical changes in its policy in allowing investments by non-residents in 1982. The new policy sought to liberalise, to a great extent, the investment opportunities available to the non-resident Indians specially with repatriation facilities and introduced measures to simplify the existing regulations under the Exchange Control Regulation Rules to enable the non-resident Indians to acquire and dispose of the shares easily. The new regulations also enlarged the scope of eligible investors of the two schemes-direct subscription scheme and portfolio scheme - the former has been operating smoothly and has thrown up very few operating problems. But the portfolio scheme has been subjected to several amednments and all kinds of impractical restrictions. These restrictions are to be liberalised.

We are of the opinion that by the introduction of 'Multiple Two-Tier Board' system of management, these problems would be solved automatically. Under this system, there will be no struggle for keeping managerial power in hand. Only problem is the selection of the post of 'Managing Director' who would be certainly the respresentative of the group belong to resident or non-resident which holds majority of shares. The only impediment in the way of it is the fear of the Indian businessmen to loose their control of management which they hold even with 6 to 10 per cent equity shares. If they prove themselves really better for the management they will be in power of management but if in the process of proportionate representation, even if they have a small number of shares they will get chance of representation. Over and above, the nominees of the financial institutions and Govt. including workers' directors will cast their votes for the post of the Managing Director in favour of the persons, whether resident or non-resident considering the ability of the person to serve the company for the best interest of the nation.

VI) **Control of Economic Power to make the Board effective and Independent :**

One of the major hindrances to the corporate management of India is caused by the existence of strong economic powers or groups which send their representative/representatives to the board to keep management in their hands and run the companies through the nominated directors. Such power groups remain sometimes visible and sometimes invisible. As long as the members of the board serve the interest of the group or house, they remain as director/directors. They have no independent power of taking decision to run well the companies. As a result, the concept of the board of directors and the suitability and effectiveness of the Board as an instrument of corporate governance are being questioned. "Not only are these allegations of widespread environmental damages, dumping hazardous products of unwary customers, poor consumer services, improper connections between big business and sections in Government, favouritism and anti-competitive practices, such as, price-fixing and inter-locking directorships, but also more heinous charges of while-collar board-room crimes such as corruption, bribery and misuse of company's assets and immoral use of privileged company information by directors in self interest. Inevitably, there is both public glamour for fundamental reform and a reassertion of control by the members of the corporate board."[8]

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8. Sengupta Dr. N.K. Changing Patterns of Corporate Management New Delhi, 2nd Edn. Revised 1983 PP 277-78.

We are also of the view that in order to bring in true democratic traditions to make the companies economically viable and for undertaking the social responsibility "the board is to be a sort of Govt. of best minds, ultimately responsible to community-consensus which sets up general objectives, standards of performance and results."[8] In Multiple Two-Tier Board there will be no sectional or individual interest or preference be given to any one. Every member of the board will uphold the common interest and exert his full faculty for the benefit of the company taking into consideration fully the social responsibility and remaining within the boundary of the rules and regulations and Governmental policies for the fulfilment of the aspiration of the millions of people of India. Our suggested Multiple Two-Tier Board will help to plug the gap between shareholders and directors in one hand and the management and control on the other hand as it envisages the professional approach, proportionate representation of shareholding by the public, banks, financial institutions, workers' representations and above all, Governmental nominees.

VII) Meaningful disclosure of the affairs of the company :

There are many authors who are of the opinion that the Annual Reports published by various companies and served on the share-holders, contain matters as statutory obligations only.

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8. Berle A.A.and Means G.C. The Modern Corporation and Private Property, New York, 1982, P-10.

The chairman's annual statement, the individual shareholders' right to get answers from the company on enquiries, the representations of the financial institutions to the Board of the companies in which those financial institutions have invested money, and the Governmental and parliamentary debate about the affairs of the company - all these make the company management almost an open book and nothing should remain hidden. But from our critical study of the Annual Reports of 75 companies (82-83, and 83-84), we can safely conclude that, these may serve the legal requirements but these are not clear-cut disclosures to the public. Except a few companies, mainly of Tata group (The Tata Iron & Steel Co., The Tata Power Company Limited, The Andhra Valley Power Supply Company Limited, The Tata Hydro Electric Power Supply Company Ltd.), others have failed to disclose clearly the number of shares held by the Government and financial institutions, proportionate percentage of voting power, even loan from banks. Microscopic small letters are also used for statement of Accounts for subsidiary companies to keep matters, obscure. As a remedy of these flaws there should be proper public disclosure which must be legible, intelligible and meaningful. It is to be remembered that legal honesty and fair reporting are by no means synonymous. Reporting must be fair and frequent and must reach every concerned party in time so that the purpose of everyone is fulfilled.

VIII) <u>Control over the post of Managing Director and abolition of the post of the Manager</u> :

Present day practice is that Central Government does not give permission to hold the post of managing director to a single person for more than one company. We also encourage such a sound principle but at the same time, we recommend the change of the company law regarding present ceiling of 20 directorship by the professionals outside part-time directors and make it 10. We recommend plural executive system of management. In the system of Multiple Two-Tier Board, there will be one executive board consisting of the professional employees. The Executive Board will be independent, no doubt, but remain under the supervision of the Policy Board. The managing director should be made the vital point of connecting link between the two boards - policy and executive. He should be shareholders' representative in private companies but to be elected by all the members of the policy board. As a full-timer he should not be allowed to act even as a part-time director to other company. The old argument of the paucity of managerial personnel in India, often used in the past, to justify the inter-locking of directorships, can not be justified any longer.

The post of manager being unpopular should be abolished. In the Company Act, the position of whole-time director and other executives should be clarified. The issue of non-registration of shares by the existing management, held both by the resident and non-resident Indians, has created a serious problem and as an effect, it has retarded the mobility of shares, collection of capital and pouring in much-needed foreign exchange. Amendment of the Companies Act in 1974 and the enactment of Securities Contracts (Regulation) Act, 1985 intending to ease the problem of registration have in effect, aggravated it. Suitable arrangements are to be made to solve these problems immediately in order to make beneficial uses of foreign money for the development of the country. Refusal to register shares is evident when the existing management is afraid of loosing its control over management. Introduction of Multiple Two-Tier Board will mostly be able to minimise this problem as under this system of management, the management body will concentrate its energy to look after the interest of all the ingredients which constitute a company instead of upholding the interest of a group or family.

IX) <u>Need for changing the attitude of the private sector companies in order to create a good relation with the Government</u> :

Since independence, there had been preponderance of the public sector over the private sector and a spectacular development in the company management was evident in the growth of public sector both in volume and in capital structure of which private sector had been junior partners. This view has recently been changed since the passing of the budget of 1985-86 and declaration made by the Prime Minister of India and Chairman of the Planning Commission on February 8, 1985 in New Delhi. Now, there is a clear indication of more reliance on the private sector companies. The public sectors have been asked to run their companies with efficiency and take effective result-oriented performances. Instead of needless extension, the public sectors should consentrate on their policies for efficiency and profit and make a reasonable input output ratio. Govt. promised to take active and reasonable steps to encourage the growth and development of private sectors. One of the means of encouragement is to withdraw unnecessary administrative controls over private sector which stand in the way of the growth, extension and expansion. More reliance is to be made on the statutory control and companies which violate the rules and regulations framed by the Govt. should be punished without any mercy. If this is done, it will be possible for the Govt. to frame the desirable policy rather than to be busy with the routine affairs. Apart from this, it will help in creating a good relation between the Govt. and Companies which is urgently needed for the rationalisation of company management.

:) <u>Private sector companies should acquire honourable position by changing their traditional attitude:</u>

There is no doubt of the fact that the Indian Companies Act which was enacted in the mid fifties and amended afterwards provide a number of restrictions on the private sector. Dishonest businessmen always try to find out flaws to regularise their misdeeds. Govt. also takes steps to plug the loopholes. In this way hide and seek game is going on. But in this respect, one should remember that the Govt. has the supreme power to say the last word. Time has come when the old motive of making huge profits will have to be replaced by a new benign motive of serving the country and its people, with only reasonable profits. Workers will have to be treated as partners in companies and not as mere producers of goods. They should be abreast of the social responsibilities and the concept of trusteeship which are the most important issues of discussion for both businessmen and authors of company management. "If the mental outlook can be adjusted in this fashion, business enterprise will be inspired by new kind of incentives, the incentive of service and promoting the general welfare."[10]

According to the same author "There are two important facts inherent in the economic situation which afford cogent reasons for cherishing the hope that enterprise in the private sector has been considerably stimulated by the impact of heavy developmental expenditure undertaken by the State. This demand will increase still further as more money is injected into the economic system. Secondly, every outlay in the public sector directly generates demand for goods and services in the private sector."[11]

Not only that till now as public sector's capital investment

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10. Das Dr. Nabagopal - Industrial Enterprise in India, 2nd Edn., 1956 Orient Longman, Bombay, P-120.

11. Ibid. Das Dr. N.G. Industrial Enterprise in India, P-176.

is many times more than that of the private sector, public sector will not only supply goods, services and finance, basic materials and power at a fair price but also it will help accelerate the economic growth of the private sector by developing infrastructure of the business. The private sectors by their activities will prove themselves worthy of holding an honourable position in the society by performing an important role in the country in effecting the 'socialist welfare state.'

As already mentioned, on and from the year 1985, the attitude of the Govt. has been changing. Several provisions have already been made so that private sector can exert their full energy and efficiency for performance of desired achievement.

XI) <u>Research and Development activities</u> :

It forms a major part of any progressive business or industry. It is, therefore, essential that industrialists and businessmen should be familiar with the subject and that students and practioners of business and industrial management should follow the doctrines of research from the very early stage. They should keep their eyes and ears open to arrive at a decision and take advantage of its necessities and techniques in all aspects of business activities. A considerable amount of money is spent in industrially developed countries for their 'research and development' purposes. It is also evident that one of the causes for the success behind Japanese Corporation is the proper spending of the huge amount of money for R. & D. activities. Mr. Paul E. Holden and others in their book Top management states "The management of research and development in to-day's dynamic and changing society has captured interest and challenged the ingenuity of top management of every major manufacturing Corporation."[12] While describing the means for evaluating R. & D. activities Mr. Steward P. Blake stated very clearly : "The operational aspect of R. & D. activity should be evaluated in terms of its performance in meeting planning goods. Adequacy of the infrastructure is determined by evaluating the facilities and equipments, technical support services, library services, and other functions supporting R & D effort. R & D performance is measured in terms of efficiency and effectiveness of the program and by evaluating the management control function."[13]

R & D activities help companies for proper and effective planning which is the key to success. But in India except a few large reputed companies, most of the companies do not spend any amount of money for R.& D. which is vital for the development of any company. But at the time of reviewing the Annual Reports of seventy five companies (1983-84), we see provisions have been made for Research and Development only in a few companies, such as, Mahindra & Mahindra Limited, Tata Iron & Steel Co. Ltd., Glaxo Laboratories (India) Limited, The Andhra Valley Power Supply Company Limited, The Baroda Rayon Corporation

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12. Holden E. Paul, Pederson A. Carlton and Germane E. Gayton-Top Management (McGraw Hill, New York, 1968) P-78.

13. Blake P Stewart - while evaluating R.D. Activities : Managing for Responsive Research and Development, W.H. Freeman and Company, San Francisco, U.S.A., 8th Edn. 1979, P-257.

Ltd., The Tata Hydro-Electric Power Supply Company Limited, Britania Industries Limited, Kirloskar Gummins Limited, Peico-Electronics & Electricals Limited, Indian Oxygen Limited, The Associated Cement Companies Limited, Jagatjit Cotton Textile Mills Limited, Ashok Leyland Limited etc. All these are big companies. It is perhaps not possible for small companies to spend money for Research and Development work. The truth is revealed by UNCTAD study of capital goods sector, New Delhi, July 17, 1985, which states that despite considerable strides made in developing the capital goods sector in developing countries, such as Brazil, China, India and the Republic of Korea, the resource utilised for Research and Development by the firms are not very substantial except in the case of India.[14]

We welcome the Governments' decision (New Delhi, July 17, 1985) for risk - sharing fund for R & D. The Union Government has decided in principle to establish a special fund to finance research projects on a risk-sharing basis with industry. Disclosing this Mr. R.R. Latey, Secretary, technical development to the Government and Director General of technical development (DGTD) told a news conference that, while the details of the proposed fund were still being worked out, his organisation had been assigned the task of identifying the areas of research which the industry could take up in foreseeable future. He said that there was no reason why India could not be a world-leader in industries like bi-cycles, two-wheelers and for that matter even in sugar given the requisite "excellence" through research.[15]

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14. The Economic Times, Calcutta dated July 18, 1985.
15. Ibid. Dated July 18, 1985.

A significant statistics, as published in the Economic Times, Calcutta, by T.C. Viswanathan of the E.T. Research Bureau disclosed that financial assistance to industrial units under the Technical Development Fund Scheme (TDFs) aggregated to Rs.212 crores during the 9 year period of 1976-77 to 1984-85. The total Foreign Exchange permitted so far under this scheme was Rs.50 lakhs per year per unit. According to a recent modification, made by the Union Govt. for foreign exchange allocations, under the TDFS for modernisation of industry, the ceiling has been raised from Rs.50 lakhs to Rs.1 crore per unit. The Govt. has also modified the scheme to enable the industries to enter into foreign collaboration for the import of drawings and designs and capital goods beyond the ceiling of Rs.1 crore.[16]

We welcome the initiative taken by the Govt. of the Research and Development activities. If individual Company's R & D project is assisted by the centrally installed TDFS, it will certainly give forth good results, no doubt, specially regarding standarisation and quality of articles produced by a firm. Management of business in general and private sector companies in particular should take full advantage of this scheme initiated by the Govt. to achieve the challenge of the change of circumstances going to take place.

8.4 <u>Sickness of industries and the role of banks vis-a-vis Multiple Two-Tier Board form of Management</u> :

Of the 75 companies, reviewed by us, (Table A Chapter VI) it is revealed that 12 companies are managed by Two-Tier Board

16. Op.cit. Calcutta, July 15, 1985.

(having a policy board and a multiple executive committee). It amounts to 16 per cent of the 75 companies reviewed by us. A clear inference that can be drawn from it, is that, due to its propriety, the Two-Tier Board system of management has been gaining importance to the Indian business magnates for its scientific and result-oriented approach. It has already been discussed that for the success of the Two-Tier Board system of management, three important ingredients are essential, viz. : (a) representation by bank (b) workers' participation in management and (c) professionalisation of company management.

First, representation of the banks has become essential considering the magnitude of the problem of sick companies in India. Bank's representative can feel the pulse of financial requirements and by supplying the requisites at the initial stage Banks can save the companies from financial crisis and sickness. Financial review of Annual Reports (1984-1985) of 25 Companies, analysed by us, shows that out of a total employed capital of Rs.3059 crores (approx), Rs.1315 (approx.) has been taken as loan from Banks and financial institutions which amounts to about 46 per cent of the total employed in those companies. It indicates that banks and financial institutions have got the right to look after the amount of money invested in the borrowing companies through sufficient number of their representatives.

News published in the Economic Times, Calcutta, dated the 12th day of July, 1985 stated that there were 80,000 industrial units, financed by banks, were sick and the bankers' stake in them was Rs.3855 crores (as in December, 1983)[17] as stated by Mr. Amitabha Ghosh, Deputy Govt., Reserve Bank of India, who upheld the magnitude of the problem.

In this respect, for relevance, and also for checking the industrial sickness, attention may be drawn to the following : The Reserve Bank is taking a serious view of the growing industrial sickness in the country. It is likely to introduce an 'accountability concept' in the banking system itself so that the lending banks can take corrective measures as soon as the symptoms of sickness are noticed. This was indicated by Mr. Amitabha Ghosh, Deputy Governor of the Reserve Bank, at a meeting with the Madras Chamber of Commerce and Industry, on the 11th July, 1985. Mr. Ghosh said that it was the banks which would first notice the symptom of scikness. Under the accountability concept, proposed to be introduced, as soon as the banks' staff notice such symptoms in any accounts, they would be required to report the matter to the manager, who, in turn, would be expected to put such accounts on the caution list and desist from further assistance to the account-holders beyond a cut-off point, pending a scrutiny by higher authorities. Of the 80,000 industrial units declared as sick on December, 1983, 491 were large borrowers with credit limits of over Rs.1 crore. The bankers' stake in the larger units was Rs.1,087 crores. He said that sickness in industry could be arrested in time if corrective measures were taken at an early stage. Unfortunately, some borrowers tried to be smart and hid

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17. The Economic Times, Calcutta, July 12, 1985.

the fact of illness from the bankers. If only the borrowers took the bankers into confidence as soon as the sickness was noticed, the banks in their own interest of safeguarding their investment in these units would be only too ready to extend rehabilitative assistance."[18]

In order to feel the pulse of industrial illness, it is essential that every company which borrows money from the banks must have one representative of banks on the board of the borrowing company. Bank can appoint expert professionals for this purpose. It can also nominate outside part-time expert professionals with proper fees. We welcome the proposal of Mr. Ghosh which will be effective in solving sickness of industries in India.

8.5 Outlook of the Central Government regarding the industrial policy :

The Prime Minister, Mr. Rajib Gandhi, speaking at the meeting of the newly constituted Planning Commission of which he is the Chairman, on February 8, 1985, in New Delhi states among other important things that the major changes that had occurred in the industrial scenario since the mid-fifties should properly be taken into account. He observes "The industrial policy has been formulted in such a way that it caters for new technologies and scientific discoveries so that the country could keep pace with and benefit from them. The policy of the plan

18. Op.cit. Calcutta July 12, 1985 on Madras July 11, 1985.

will also take into account the rising expectations of the people." He opines that "the people expect faster and tangible results. People will co-operate with us as long as we give evidence of moving fast, and development remains the key factor holding the country together. We should look into our instruments and see whether they are geared to meet the basic requirements of alleviating poverty, providing social justice and giving an impetus to economic growth. We should deliver substantial growth to the people and bring about necessary changes in the administration while maintaining stability." The Prime Minister further states that "we want to redirect our technological services and informational industries as in other advanced countries. India has the capacity, natural wealth and vast human resources. We should harness the same to our advantage by letting ourselves go freeing ourselves from mental blockade and self imposed shackles." He is also keen that "a massive fillip should be given to the electronic industry which will be the trend setter for the 21st century."[19]

In accordance with the objectives of the 7th Five Year Plan, the first budget 1985-86 is considered as innovative and experimental. It provides with several packages including reduction of corporate tax and wealth tax, discontinuation of surcharge, offering stable fiscal policy, reformation and simplification of tax structure, increasing the level of the limit of monopoly houses, etc. etc.

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19. Competition Success, New Delhi, May 1985 review.

As regards the black money though the Govt. has not yet spelt out any definite measures either to curtail its growth or unearth it and bring it to open, yet Govt. has threatended stern measures and expects that the reliefs provided in the direct taxes set-up will serve as adequate inducement for black money to be declared and taxes paid. Another feature of the budget is that, companies will now be permitted to donate openly to political parties. The controls and licences are also being liberalised, if not totally done away with. This, along with reducing the burden of income tax and surcharge on corporate income, provides positive attempt to curtail black money. In the budget of 1986-87 also several schemes have been chalked to give sufficient incentives to private sectors. It has been clearly envisaged that private sectors have been given preponderance over public sectors.

The above are the main policies in short, through planning and anciliary budget to banish poverty and to bring about equitable distribution of wealth in conformity with the national objectives of ushering in democratic socialism. However, according to 1981 census and the review of the progress of sixth plan, nearly 50 per cent of our population is still below the poverty line. Over 370 million men, women and children do not get two square meals a day.

People expect many things from companies managed efficiently. They expect good achievements so that their sufferings are allevieted in short time. Private sectors are required to show their creditable performances as a great importance has been attached to them.

We sincerely believe that expectation of the Govt. and people would be fulfilled if new technologies are introduced, structure of the management is reconstituted in accordance with suggested Multiple Two-Tier Board, the efficiency of the company management is made effective by making it free from the presence of the powerful economic groups or families, establishing true professional management independent of taking decision, increasing the scope of public accountability, introducing workers/employees' participation in capital and management, arranging proportionate representation in shareholding both by private individual and financial institutions. These are the preconditions for successful company-management. The very idea of social responsibility of the business is also to be developed.

8.6 Managerialism and its effect on the company management of India :

Discussing the history of the company management, many renowned theorists observe that, though most of the modern giant Corporations in the West, started as family enterprises, have gradually outgrown the limits of family control and developed into corporations with widely dispersed shareholding and professional management. As a result of separation of ownership and management, and ownership and control, it leads more and more to the concentration of power in the hands of the corporate managers. This is known as managerialism. Many eminent authors including A.A. Berle, G.C. Means, P. Sargent Florence, E.A. Gordon, George Goyder, Dahrendorf including Karl Marx are of the opinion that a new class of non-propertied managers have emerged replacing the owner managers and are owing their position to their managerial ability rather than property ownership. Their different social backgrounds, trainings and experiences make them think and act differently from the owner-managers or capitalists in the traditional sense.

Under this ystem of managerialism private sector has to overcome its traditional view. It has to imporve its corporate image. It has to rely on professional managers, replacing the control of family members by a control through a system. With this system, social responsibility and more recently, innovated idea of trusteeship have emerged. The ideology is that company will not only distribute its profit for the society but also treat the companies as a force for social change towards the development of the country. For performing social responsibilities, the principle of social audit has been prescribed by Goyder. In order to perform social responsibilities, private businessmen must improve their performances and image and leave their ostensible style of living. They should devlop the art of adopting themselves to the changing environment. Though in recent years, this awareness is evident in advanced countries, regarding social responsibilities in India it is utterly neglected. In this respect, it is worthquoting here the following lines as corporate managers are facing the challenge :

"It will be their task to convince society that they are not a band of socially irresponsible self-seekers but they have an important role to play in the country's economic development and social reconstruction as the ministers and civil servants and that they are anxious to play this role and become partners in this endeavour. It is interesting to note that the move towards social responsibility, along with the various other conceptual developments in the thinking of Corporations in the West, bring corporate management very close to Mahatma Gandhi's philosophy of trusteeship."[20]

8.7 Upholding the philosophy of trusteeship of Mahatma Gandhi :

Really future developments of the company management will depend on upholding the concept of trusteeship as enunciated by Mahatma Gandhi by the effective Board of Directors readily accountable to the public as to the shareholders for their decisions and actions. But in India it is long way to go towards managerialism with social responsibility and trusteeship ideas. Though emergence of it is visible in some cases, opinion of an eminent author is summed up as follows : "The perceptible resistance to change in Indian Industry hardly requires elaborate proof. Absorption of the new into the fold of the old has clouded many further developments. Deliberate side-tracking and soft pedalling of the changes have stunted growth. To cap these all, even adaptation to change

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20. Sengupta Dr, N.K. "Mahatma Gandhi's concept of Trusteeship and corporate management - What Relevance", presented at a seminar, Calcutta, June 1969 and published by Young Alliance, New Delhi, Vol. V, October, 1969.

has been half-hearted, making the transition to a new productive order incomplete. The emergence of a managerial class has become a misnomer in conditions in which industry and its management have never really become free from 'ownership motivation.' Even the so called public enterprises have not been free from this force. Without scientific objective management, the emergence of the managerial class becomes rather perverse. Managers themselves becomes magnified clerks, performing as post office, a centre of relay, who can elaborate the orders and decisions received from the top for communication down below, but can not change them, nor can they pass such orders as their own. A close look at the management practices in Indian history would unfold the existence of similar management conditions even in many large enterprises. In the circumstances emergence of managerial class becomes uncertain. The uncertainity can not be removed till managerial class as such is distinguished from the entrepreneurs by virtue of its responsibility to run the enterprises as against the establishment of such enterprises by entrepreneurs."[21]

In India it has become urgently necessary for the company management to come out from family bondage serving their interest. The Board of Directors is to be given proper authority to run the company so that they can take independent decisions. Their attitude and outlook are to be changed. These objectives can be

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21. Chattopadhyaya P. "Managerial Revolution in India : a comment on its character and context," Part - I, Indian Management, May-June, 1969.

achieved only if the Board is constituted with professional personnels having modern outlook, patriotic mentality and calibre of adjustments, bold enough to entertain technological development. They should be efficient, honest, initiative and socially responsible.

6.8 Concept of shareholders' democracy and means to fill in the gap between ownership and control :

Along with the legal provisions for reconstructing the Board of Directors, the wide gap that has arisen in the changed development of the structure of the Corporation between control and ownership in one hand, ownership and management on the other has to be filled in (Paragraph 5.3 of the Report of the Sachar Committee, 1978). Consequently, as a corrective measure, the committee suggested that "the law must see to it that the gap between the shareholders, who are the owners, and the directors, who are in control of the destiny of the company, does not become so wide as to endanger the interest of the shareholders." Having said this, however, the committee has also correctly recognised the fact that the size of modern companies requires a professional approach to their management thereby conceding the need for exercise of powers by the directors unfettered by day to day control from shareholders who in the committee's opinion, must gradually be content to act as investors rather than as persons in control.

But we have yet to see in India the development of companies of such large size that shareholders' democracy is a matter of fact rather than of judicial theory. Under this circumstances formation of shareholders' Association is necessary to wield influence over the company's affairs through collective action based not only on a grouping of interests but also on the ability to secure professional service and advise. Secondly, we fully support the committees' suggestion of greater degree of professionalisation of management which includes professionalisation of directors and effective and meaningful participation of shareholders will minimise the wide gap between company and management.

8.9 Introduction of Multiple Two-Tier Board to undertake the challenge :

All the above flaws will be removed by the board if it is constituted of the representatives of different segments of the societies. The membership on the board must not be on the basis of family-status and background representing a group/groups of families/individual family. It should be on the basis of professional qualification, ability and experience. Once the board comes out of family-bondage and prove to start independent on taking own decisions, other requirements of effectiveness will automatically follow. In this respect the truth revealed by famous author, Harold Koontz is worthmentioning :

"The main essential is that those who control the company must want to have such a board. Even though, it may take time, particularly if a board has fallen into slovenly, irresponsible or ineffectual ways, it can be done. And in a surprising number of instances, the change over has come more rapidly than had been thought possible. Ordinarily, there is talent on even an ineffectual board. If challenged by doing what a board should, this talent is often rise rather than quickly to the opportunities for contribution thus provided. In addition, when it is understood that what a board should do it, it becomes clear what kind of directors are needed as board vacancies occur."[22]

We fervently believe that Multiple Two-Tier Board will be able to cure all maladies from which companies are suffering at present. At least, it will able to minimise the problems and make the top management more effective, innovative, sensible and responsive.

We are to remember that the major developments that took place in company management in India after 1970 were the ever-increasing percentage of shareholding in the private sector companies by public financial institutions, and the private sector's increasing reliance on the institutions for term finance; and the significant and growing presence of a large number of joint sector companies in various parts of the country.

We have already mentioned that the joint sector movement is a step to march towards the Multiple Two-Tier Board. In

22. Koontz Harold, Board of Directors and Effective Management, Mc Graw - Hill, New York, 1967 P-246.

this Board, the best lessons learnt from the successful company management in different parts of the World can be incorporated. As for example, the concept of Two-Tier Board of West Germany with the consequent result of workers' participation in company management and involving bank's representative in the Board of the company who takes loan from the bank or bank's representation as authorised by small shareholders, the professionalisation and managerialism of the U.S.A., Two-Part Board system of European Countries, proportionate representation system of the U.S.A. and Canada, whole-life employment and mechanism through which desirable relationship established between Govt. and Companies of Japan, socialist style of management of the U.S.S.R. and China can be introduced, at least, to a substantial extent for making the company management of our country more effective. At the same time, the changes and developments that have taken place render opportunity to introduce this system. This system of management may be applicable to both the public and private sectors with profit.

8.10 <u>Logic of Introducing Multiple Two-Tier Board</u> :

We are of the opinion that logic of Multiple Two-Tier Board is right, the talent is there and the legal and administrative requirements also justify its introduction. The present day development of company management in India has provided scope for its formation. We should have noble vision and courage to take action on it. This system remaining within the purview of our pious constitutions will enable the people, engaged in top company management, to further their personal and career interests in a dignified manner making full adjustment with the interest of the country. This system may be regarded as the 'workable principle and practices' through which interest of all will be served resulting development of the whole nation. The outstanding feature of Indian economy over the last forty years relating to the company management is that there has been much expansion in public sector on the one hand and a tight system of multifarious direct controls on private sectors on the other hand. Controls have been inevitable for economic co-ordination and planning and prevention of mismanagement and abuse of power by the companies. The responsibility lies with the board that fails to check the executives. There has been also widespread public complaints against the company management. This necessitates the Government to interfere with the internal management of the companies.

If the company boards were more independent and villiant, there would have been less need for the direct Government interference with managerial matters. In the Multiple Two-Tier Board system management, the Policy Board will enjoy true independence. It will have full control over the executives.

We also recommend that both Central and State Governments should take initiative in forming a large number of companies on joint sector basis and introduce Multiple Two-Tier Board for management of those companies. These will be models. Many businessmen will follow the ideals of those companies. Some shares of the public sector companies may be issued to the private businessmen and introduce Multiple Two-Tier Board system of management in order to bring about efficiency, stability and viability specially of those companies which are running at a loss.

Inspite of our best efforts there might be some errors and duplication of ideas or some minor inconsistencies in different chapters, we have made an honest attempt to present most effective and workable format of the structure of 'Company-Management' in India. But no format can be treated as standard and ideal for all time and for all the companies, big or small. Our proposed format of the so called management pattern is mostly applicable in big companies specially for those under private sector. That does not mean that such type of format, as suggested is not at all applicable in case of small companies or companies under public sector. The Multiple Two-Tier Board system is equally applicable for big or small companies of both under public or private sectors. But the format may be conveniently used in big companies under private sector for more than one reason narrated briefly in different chapters.

However, the indepth study of Company Management starting from its historical aspect, constitutional effect, different relevant legislations, existing pattern of management in different developing countries and the prevailing pattern of management of a number of joint stock companies in India will help future researchers to work on different aspects of company form of business in India.