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SPECIAL ISSUE, Vol. VII, No. 1, May

PUBLIC ENTERPRISES

This is a special issue on Public Enterprises in Sri Lanka and India published by the Academy of Administrative Studies.

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EDITORIAL

THE special issue of the Journal of Development Administration contains articles which examine the strategic role of Public Enterprises in the process of economic planning (especially relating to India and Sri Lanka) as well as others which analyse the evolution of Public Enterprises, evaluate their performance and suggest indicators for the future.

The Government which has been swept into power in Sri Lanka by an unprecedented majority in the recent General Elections has made a number of significant policy statements in regard to the Corporation Sector. The most important of these, no doubt, has been the clear warning issued to the management of State Corporations which have accumulated heavy losses that they can no longer expect Treasury grants to cover these losses. Such State Corporations have been clearly directed to carry out a radical reorganization which would enable them to become self-sustaining or be prepared to close down.

This publication is therefore timely and we feel that all persons interested in the growth and expansion of Public Enterprises (as well as those who would be grappling with the problems of corporate survival!) would find this issue to be of stimulating interest and, perhaps, helpful in their search for pointers to the future.

V. C. B. UNANTENNE.

July 31st, 1977.

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Journal of Development Administration, Vol. VII No. 1-May, 1977

Some Legal Reforms for the Performance Improvement of the State Corporation Sector in Sri Lanka

R. K. DE S. SARATH CHANDRA

IN this study, no attempt has been made to deal with reforms required at the level of the legislature and areas closely connected with the Legislature. The legal system as such and the process of adjudication too have not been considered in detail.

Administrative machinery comprise the main area selected for this study. The main topics covered in this study are as follows:—

- (1) Planning
- (2) Ministry Participation
- (3) Inter-Ministerial Problems
- (4) Chief Executives
- (5) Trade Union Relations
- (6) Emergency Situations
- (7) Management Services Bureau
- (8) State Audit Bureau
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- (10) State Enterprises Bureau: Introduction
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- (16) Management Research Institute

1. Planning

1.1 This is a very important area in which the administrative process seems to be extremely weak.

It is true that since the passing of the Finance Act, Number 38 of 1971, the practice of adopting annual budgets in time has got established.

Unfortunately the compulsion to submit a budget on the due date has resulted in the preparation of budgets which are more a mass of tabulated and printed figures presented in such a way as to meet the statutory requirements rather than a plan of operations put in money-terms.

This situation could be improved through additional statutory provisions in this regard; for instance a statement of objectives, targets for cost reduction or cost control, limitation of the total wages, could be made a necessary preface to all corporation budgets.

1.2 One of the common reasons for treating budgets as no more than a statutory requirement is the nearly unpredictable behaviour of prices of raw materials, machinery, equipment, spare parts, fuel, etc., but it should be possible to declare the price-levels, wage-levels, and conditions assuming which a budget has been prepared so that when performance is compared with the budget, one could clearly understand a substantial part of the variance in terms of changes in the various basefactors.

This too could be achieved initially through statutory provisions.

1.3 Another important aspect regarding planning is the use of planning techniques; in this connection network planning could be mentioned as a particularly important technique. In developed countries it is customary for the submission of say, construction tenders along with network programmes drawn up by the tenderers. This is advantageous for both the contractor and the client institution.

Further, in a situation in which planning does not receive the attention it deserves, planning discipline could be instilled into the minds of managerial personnel if statutory compulsion is introduced for the use of networks in certain specified classes of operations including construction of factories, floating of important projects, introduction of new products, large-scale purchasing operations spread over a long period of time, etc.

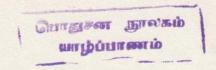
Although knowledge of these techniques is not alien to Sri Lanka, a beginning will not be made unless statutory compulsion is introduced within reasonable limits.

2. Ministry Participation

2.1 One of the biggest draw-backs in the administrative process is the usually negative and occasionally harmful role played by the respective Ministries in charge of Public Corporations.

This is caused by one or more of several factors, depending on the personnel concerned to some extent but caused by a weak system to a much greater extent.

2.2 The commonest reason is the old government style approach to supervision and control. In this approach the main interest is not on focusing attention on targets, back-ground, directed progress and helpful contribution towards such



progress; it is rather more connected with, haphazard, aimless, routine, superficial, interference of a doubtful and transitory value but quite often with far-reaching harmful effects.

An examination of many a sample of correspondence between Ministries and Corporations would reveal the nature of this approach.

2.3 This is caused to a great extent by the absence of a clear and precise definition of the role of Ministries with respect to Public Corporations and the incidence of powerful officers in Ministries who lack training, attitude, orientation, qualifications and experience to handle affairs pertaining to Public Corporations.

Instances of ministry officials who are supposed to review personnel operations without knowing the elements of personnel management; or to review project proposals without the haziest idea of project evaluation, or to review purchasing exercises without a knowledge of the ABC of tender evaluation and procurement theory and practice, or to review price structures without knowing anything more than the existence of pricing theory, methods and techniques, to say the least are not too rare. There is no rhetoric or emphasis in these comments; it is only a statement of fact, perhaps an understatement.

- 2.4 Another aspect of ministry administration is that the activities of ministry officials are virtually restricted to "re-acting to the papers" that come into the 'in-tray'. The true managerial role should rather be to use papers as one of the vehicles of communications for achieving set goals in a decided style.
- 2.5 The use of rules and regulations to decide, defend or find fault with action taken is another characteristic of government-style administration. In the Corporation set-up rules and regulations should be treated more as a facility and a guide-line since attainment of targets is the more important aim.

The day when Ministries would totally ruin Public Corporations, perhaps not even knowing that such a thing is happening, is not a day to wait for. Before that day, let the role of Ministries be defined by legislation.

- 2.6 This legislation ought to be introduced in phased packs so that initially the powers of the Ministries would be restricted to co-ordination only; thereafter with the gradual improvement of the quality of ministry systems and personnel, additional decidedly useful powers could be given to Ministries.
- 2.7 Training agencies should give top priority to the training of ministry officials. The proposed State Enterprises Bureau will take the initiative in programming training activities in this regard.

The delay on the part of Ministries in dealing with State Corporation problems is not at all in consonance with the speed of operations expected from Public Corporations; this is one common reason for the frustration of corporation executives.

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2.8 This is incidentally an illustration of the absence of serious time-based targets where ministries are concerned, whereas most Public Corporations nervously follow time-based targets. Corporation executives are often heard to say that if the Ministries were not there at all they could have performed better. This however is too much of a sweeping statement.

One legislative solution to this is mentioned under the section on the State Enterprises Bureau.

- 2.9 The essence of the suggestion is that where a delay is inordinate the Corporation will be entitled to a special compensation in money charged against a vote in the particular Ministry.
- 2.10 This could be incorporated in the re-definition of functions of Ministries and in other relevant enactments.
- 2.11 A useful analogy for a standard in re-adjusting the role of the Ministry with respect to its Corporations, is that of a Holding Company with respect to the member companies.
- 2.12 Until new systems are evolved Ministries must learn to reduce the incidence of establishment and expenditure control methods for supervising the Public Corporations in their charge.
- 2.13 Yet another weakness of the old style ministerial administration is the prevalence of decision-making based on the "presented case". This is partly a consequence of the incidence of civil servants who were supposed to be able to make correct decisions on nearly any subject by applying their "brilliance" to the "facts presented". This is neither the only way nor the best way of decision-making at the ministry level.
- 2.14 It is more sensible for ministry officials to be armed with necessary background data and take decisions definitely conducive to the economic well-being of the country as well as the performance improvement of the Corporations concerned. This would naturally require closer understanding of the operations of Corporations and hence also the collection, analysis, collation, interpretation, preservation and proper retrievability of relevant data.
- 2.15 In the definition of the new functions of ministries with respect to Public Corporations data collection, etc., should be mentioned specifically. Although in some ministries such as Industries, Irrigation, Power and Highways, and Planning, Progress Control rooms have been attempted legislative compulsion is needed to create the better attitude towards collection, organisation and presentation of data.
- 2.16 Taking all the Ministries into account, one has to say that there is no regular well-designed reporting system as between Ministries and Public Corporations. This has been attempted to some extent for instance in the Ministry of Industries.

Regular performance improvement oriented reporting systems are so necessary that it is not a good thing to be left to the discretion of Ministry or Corporation officials.

Statutory provision is the only way in which good reporting systems could be established.

The need for an accepted reporting system could be mentioned in a general act; this could be amplified in legislative enactments for groups of Corporations, e.g., Banks, Trading, etc.; in specific enactments or equivalents for specific Corporations the exact pattern of reporting and review between Ministries and Corporations could be spelt out.

In this context it might be mentioned that the provisions of the Finance Act Number 38 of 1971, have met with some measure of success for instance in connection with the timely submission of annual reports including accounts, and also regarding the preparation of Budgets.

- 2.17 It must also be made a statutory duty of the proposed State Enterprises. Bureau to review the reporting systems periodically so that firstly the systems could be generally improved and secondly new ideas arising in particular Ministries could be put to use in other Ministries.
- 2.18 Closely tied up with reporting systems is the question of effective performance criteria. The need for definite performance measurement criteria should be mentioned in a general act. The responsibility for evolving performance measurement criteria should be given to the proposed State Management Services Bureau (Section 3.9) by Statute; the Bureau will however take the advice of other agencies such as the State Enterprises Bureau, the State Audit Bureau, Ministries and Corporations.
- 2.19 The effective use of performance measurement criteria cannot be achieved only as among Ministries and Corporations. Hence in the legislative provisions at the appropriate level, may be in specific acts, group acts and general acts depending on the style of Corporations. The law should require every Corporation to evolve performance measurement criteria for units within the Corporation. Only in this way can the measurement of performance be done as a matter of habit; law will take the lead, may be, until the habit is formed.

3. Inter-Ministerial Problems

3.1 A Public Corporation means one thing to one Ministry and quite a different thing to another. This is meaningless. A uniform approach to the sector is needed. It is hoped that this would eventually result when some of the recommendations in the first few units of this study are implemented.

As among certain ministries the approach to Public Corporations is clearly contradictory. In one instance a Public Corporation is regarded as an independent economic entity operating in close resemblance to a company; simultaneously

another Corporation is treated as a Government Department of which the head is called by a different name, i.e., a Chairman, whose powers are less than those of a Director of a Government Department in the sense that vital decisions are supposed to be taken by the Board of Directors and not by the Chairman; in another place a Corporation exists in place of a Government Department merely because it affords a quicker release for pressures to secure employment for the unemployed and underemployed.

3.2 The absence of arrangements for pooling of resources among Public Corporations under different Ministries, is a significant gap. For instance, in the case of redundant personnel, non-moving spare parts, excess machinery and raw materials or expertise, much could be done by an inter-ministerial co-ordination system.

It is hoped that this would be attended to on the basis of certain recommendations made under the powers and duties of the proposed State Enterprises Bureau.

A Minister for Public Enterprises as has been tried out in some countries may lead to a solution. However it might not suit the local situation in Sri Lanka unless the Minister is also the Prime Minister; what has been proposed in this study takes into account local politics and other conditions prevailing at the time of writing.

4. Chief Executives

4.1 The administrative process is closely linked with the office of the Chief Executive. Elsewhere in this paper a suggestion that Boards of Directors of the present style and form be done away with, has been made. If these suggestions are accepted the office of Chief Executive will become much more important than what it is today.

The position of the Chief Executives and the calibre of persons occupying these positions have to be looked at carefully, specially in this eventuality.

Once the broad objectives, operating plan, policies and programmes have been settled in consultation with other authorities the Chief Executive must have the freedom to direct the organisation towards the achievement of its goals, purely on the basis of sound management principles.

4.2 This implies firstly that the persons occupying these posts must be proven managers and secondly that they must feel secure in their position to assert themselves fearlessly. Even the few Chief Executives who are otherwise capable of delivering the goods have been rendered weak, apathetic and resigned, for one clear reason, i.e., absence of job security. This is going to such an extreme that very soon, a young person with a long future ahead, however capable and confident he is, will not touch a post of Chief Executive for fear of spoiling his career. In this situation we might be left with the criterion of long experience as the only criterion on which Chief Executives are appointed. This is not the best criterion.

- 4.3 A few simple statutory changes can bring about vast change in this matter. Some of the changes recommended are as follows:—
 - (1) To set up a State Corporations Managerial Service to which all Chief Executives and senior managers will belong.
 - (2) This service to be set up by special statute.
 - (3) the Statute to provide for security of tenure of office, salaries, appointment, promotion and removal of officers.
 - (4) the service to supply personnel for manning-
 - (a) Ministry Units handling Corporations,
 - (b) service and control agencies for the Sector such as the State Enterprises Bureau, State Audit Bureau, Management Services Bureau and Public Sector Training Institutions.

The involvement of managers occasionally at least in matters like Research Training, Consultancy, Audit, etc., is useful; it would help improve the quality of managers as well as the quality of such services.

4.4 Important management problems, administrative bottle-necks, impediments, etc., are discussed and forgotten in whisper conferences. This leads to silent deterioration of morale among managers, frustration and despair; it does not bring about any useful results.

Free discussion among Chief Executives has been attempted by the Sri Lanka Institute for the Study of State Corporations (SLISSCO)—a voluntary organisation; at these conferences a candid suggestion was made that the forum provided by SLISSCO was NECESSARY, and USEFUL if only official approval of the conference was patently declared. This suggestion was not one arising out of timidness or fright but it was a well considered idea arising from the wisdom of veterans.

It is submitted that statutory provision be made for such free discussions among Chief Executives.

- 4.5 One possible method is to set up a Federation of Public Corporations to which the State Enterprises Bureau would provide Secretarial Services. Statutory powers such as the following could be given to the Federation:—
 - (1) Conducting Conferences of Chief Executives to discuss any matter whatsoever pertaining to Public Corporations.
 - (2) Advising Government and individuals or groups of Public Corporations on policy matters.
 - (3) Providing a forum for the open discussion of large-scale projects.

4.6 In the private sector there are very effective arrangements for negotiations between Trade Union Federations and Employers' Federations. Further individual companies are given advice from the centre in connection with industrial relations problems.

The proposed Federation of Public Corporations might fill the void, in this regard.

In fact earlier attempts to arrange for collective agreements with respect to Public Corporations failed in the long run because the institutional arrangements were transitory.

- 4.7 The 'public' discussion of large-scale projects will help improve the quality of managers as well as the quality of projects undertaken.
- 4.8 The incidence of two persons presumably having the powers and duties of Chief Executive appears to be some-what common. Widely different combinations, e.g., Chairman and Vice-Chairman, Chairman and Managing Director, Chairman and General Manager, are capable of causing this difficult situation. If one grants the fact that the organisation will not run properly if there are two Chief Executives, it immediately follows that cases where there are two de facto Chief Executives should be examined and rectified.
- 4.9 The suggestion to have some part-time Directors over-seeing certain functions is another weak link in the organisations where Chief Executives are concerned; it should be left to the Chief Executive, if he so desires, to consult an expert on the Board of Directors; that would be informal. To formalise such an arrangement is not a good thing.

5. Trade Union Relations

5.1 The administrative process presents a clearly negative approach in the handling of trade union relations. Although within most of the Public Corporations there are arrangements for meaningful discussions with trade unions, when it comes to the level of Ministries hardly any effort is made to co-ordinate matters as among Corporations. It is interesting however to note that the trade unions on the other hand have their own inter-corporation organisational arrangements and that most trade unions are federated at the national level.

In this matter the relative disorganisation of the Public Corporation Sector is illustrated by the fact that very many simple demands are based on the practice prevailing in one Corporation or another, such practice being known to the trade union organisations but not to the Corporations or the Ministries. Every time such an issue arises, it is customary for a Public Corporation to address communications to several relevant Corporations and inquire about the prevailing practice; quite often replies come late or no replies come at all or sometimes the replies are inaccurate; the net result is the embittering of relations with workers.

This could be easily avoided with better inter-ministerial and inter-corporation relations with respect to trade union matters. This has been an obvious problem for so many years; the solution too has been fairly obvious.

5.2 It now seems that legislative provisions alone can help initiate the expected changes.

Some of these provisions are discussed in connection with the proposed legislation for the State Enterprises Bureau considered elsewhere in this paper. Related provisions could be made in re-defining the functions of Ministries, and in setting up the proposed Federation of Public Corporations.

5.3 This type of co-ordination provisions will be subsequently useful in promoting a positive role for Ministries and other agencies in Trade Union Matters, i.e., the prior preparation and the promotion of common lines of action for future demands. This would also give time for consulting the Government in very important matters, before strained relations are caused.

6. Emergency Situations

- 6.1 There is no accepted method of dealing with emergency situations restricted to one or more Public Corporations. The situations meant here are caused usually by one of the following reasons: (a) total break-down of relations between employees and management; (b) where there is prima facie evidence of serious charges against the Chief Executive or members of the Board of Directors or both where it is not clear which one is responsible; (c) occurrence of a catastrophe not readily understood.
- 6.2 The situation that prevailed in the Fisheries Corporation in 1969 and in the Sri Lanka Steel Corporation in 1969–1970, were two vivid examples of a total break-down of relations between management and employees. Events that took place in many Corporations soon after the General Elections in 1970 followed a similar trend though short-lived, being largely caused by transitory political enthusiasm.

There is no clear indication that this trend has been arrested. Sit-in's and the like in India might easily get copied in Sri Lanka. In any event it is obvious that preparation is needed to meet difficult labour relations situations in Corporations, particularly manufacturing Corporations. The situations, mentioned above, in the Fisheries and Steel Corporations continued for several months.

Both started with strikes. Both resulted in a nearly complete break-down in labour-management relations. Prior to the General Elections in May, 1970, no final solution was evidenced in either case. In the case of Fisheries, a new Board of Directors appointed after the General Elections brought the situation under control. In the case of Steel a short-term solution was found in the formation of a somewhat informal productivity committee without formal approval and without the assistance of the Board of Directors or the General Manager on which the three main trade unions of the Corporation were represented.

It is difficult to say that this was a viable solution but it lasted as such, for a little over 7 months; almost during the entire period the Board of Directors, the General Manager, and many senior officers were virtually cut off from the work-force in the factory and the Head Office.

Strangely the partial changes at Board level effected after the new Government took over in May, 1970, failed to bring about a settlement.

A further change of the Board within a few weeks, i.e., in September, 1970, in which political personalities favourable to the new Government were also dropped helped to achieve a solution, since with this change the earlier "management clique" was in effect dropped as the workers had demanded.

6.3 In the case of Steel, a large project with over Rs. 100 million investment (which recently increased its profit to 24 million rupees), in theory at least, the assets were left unprotected for so many months although in reality the trade unions themselves (including the Executive Officers Trade Union too) gave protection to the assets through their informal productivity committee.

But this indicates the immense risk taken in this type of situation, especially when plant and machinery are so costly due to foreign exchange problems, since no acceptable solution has been worked out for a future eventuality.

It is submitted that in a case like this the appointment of a Special Commissioner, an individual of very high standing, to run the Corporation during the emergency to the total exclusion of the Board of Directors and the Chief Executive for the timebeing is a feasible and possible solution.

6.4 The General Law of Public Corporations should therefore include provisions for the appointment of Special Commissioners in given situations of emergency.

The two other classes of emergency situations mentioned at the beginning of this section could also be looked after by this means.

7. Management Services Bureau

- 7.1 The Management Services Department of the Ministry of Public Administration, and Home Affairs appears to be the only organised attempt within the Government sector committed to the provision of management services. However this department generally serves Government Departments and Ministries rather than Public Corporations.
- 7.2 It is felt that owing to the fast, varied and somewhat haphazard growth of the Public Corporation Sector the need for management services of the sector are more pronounced than that of Government Departments and Ministries.

It is unfortunate that the need is so much that in some Public Corporations paradoxically the need is not felt; and hence enormous problems that seriously affect the performance of Corporations are left unattended year after year.

Further there is a marked dearth of experts in certain specific fields such as marketing in general, market research, documentation, project evaluation, etc.; in these fields, since it is not practicable or economical to have experts in all Corporations, a Management Services Bureau including such expertise would be an economical solution. It is proposed that such a Management Services Bureau be set up under a special statute.

The functions of the Bureau should include the following:-

- (1) To provide management services to Public Corporations.
- (2) To assist the State Audit Bureau in fixing performance measurement criteria and performance measurement systems within each Corporation.
- (3) To link training efforts with the application of training imparted.
- (4) Assisting Public Corporations in taking remedial action suggested by auditors.
- (5) Advise the State Enterprises Bureau on the task of classifying Public Corporations.
- 7.3 At this point, it must be stated that in 1971 a proposal for setting up a State Audit and Management Services Bureau came up before the Legislature.

It must be pointed out that although it is economical from the point of veiw of saving overheads, if one institute is established for both audit and management services, it would certainly be more effective if the two institutions are set up separately. Otherwise it is quite possible that the audit function will gain emphasis at the expense of the management services function.

8. State Audit Bureau

8.1 In the early Corporations set up under the State Industrial Corporations Act, Number 49 of 1957, Auditors were appointed by the Ministry in charge of a particular Corporation in consultation with the Auditor-General.

A recent change, specially after the Finance Act, Number 38 of 1971, has been for the Auditor-General's Department to directly undertake the audit of certain Public Corporations.

It has been argued that direct audit by the Auditor-General's Department will result in a Government type audit in which regularity would be the prime concern. On the other hand, it can be argued that the missionary zeal of the Auditor-General and his officers who are traditionally invested with the guardianship of State assets should be conducive to a good audit.

Further it is known that planned efforts are being made to change the scope and style of audit, to make the audit function more meaningful.

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It would be appreciated that the Auditor-General's Department being a Government Department might not find it easy to expand its organisation to keep pace with the expansion of the Public Corporation Sector and the audit needs of the sector according to modernised patterns.

In particular in order to make the role of audit more dynamic it will be necessary to attract younger and more qualified audit personnel into the audit field.

8.2 In this context, it is proposed that a State Audit Bureau for auditing Public Corporations be set up.

In addition to conducting its normal business aforesaid, it is submitted that the functions of the proposed State Audit Bureau include the following:—

- (1) The definition of performance measurement criteria in consultation with the State Enterprises Bureau. It is admitted that the definition of performance measurement criteria is no easy task, specially when educational and other institutions for which the profit-criterion is not applicable are concerned; even where profit is the traditional criterion it may not be a sufficiently deciding criterion. At the initial stages, one convenient way to tackle this problem is to derive corporate periodical plans from the national plan for given periods and to compare the performance with the plan. If suitable combinations of different types of 'plans' are selected for each Corporation the net result is likely to be a reasonably good performance measurement criterion for each Corporation.
- (2) Design efficiency audit systems where ordinary measurements of performance are irrelevant or of little application.
 - e.g. —(a) For institutions such as Universities where profit is not the main aim.
 - (b) Institutions like the C. T. B. which maintain services out of social necessity, which cannot be ignored merely on account of profitability, etc.
 - (c) Price fixing decisions prompted by special reasons, which render profits as an ineffective measure of efficiency.
 - (d) Public Corporations which undertake research, development and training operations on a large-scale ordinarily out of proportion to the direct needs of the relevant institutions.
- (3) To advise the State Enterprises Bureau to follow-up weak areas in Public Corporetions which are discovered in the process of audit such as are of a general or far-reaching nature, and should not be left to the relevant Corporations of the Ministries alone.

8.3 It must be mentioned that the statute creating the State Audit Bureau should require the person holding the post of Auditor-General for the time being to function as the Head of the Bureau; any departure from such a pattern should not be entertained until after the operations of the Bureau are watched for a few years.

In the enthusiasm to solve a current problem, the sanctity and unitary nature of the office of the Auditor-General of a country should not be lightly disturbed; such a step might have far-reaching adverse effects.

- 8.4 The State Audit Bureau must the required to emphasise pre-decision and post-implementation audits, financial as well as evaluation audits, organising its work in audit packages, e.g., a group of related corporations selected by objectives, organisation or age, so that remedial action would be facilitated.
- 8.5 It would be very harmful to continue to debate the feasibility of having efficiency audits, the availability of personnel for such audits and so on and postpone implementation of these proposals; even in some of the developed countries these problems exist and the debates continue; in a developing country such as Sri Lanka it is of vital necessity to attempt some extent of modernisation immediately and continually revise the arrangements on the basis of experience, without waiting for perfection of systems which might not be achieved within a reasonable time.

9. State Corporations Development Bank

9.1 It has been said that in the case of Turkey, that at one time inter-corporation financial transactions had increased and had got inter-woven to such an extent that at a certain stage it became extremely difficult to assess the exact financial position of many Public Corporations.

In Sri Lanka action has already been taken to reduce inter-Corporation loans and further administrative action in the same line have been taken, for instance to reduce suppliers' credit among Public Corporations.

However, such provisions have only helped to avert a bad situation with respect to the financial assessment of individual Corporations. So far no concrete steps have been taken to positively contribute towards the financial structure of Public Corporations. The present arrangement is for the National State Assembly to give capital grants to Public Corporations. Similarly losses are replenished ultimately by the National State Assembly. In the same spirit, surpluses of Public Corporations are channelled back to the Treasury.

Borrowing limits of Public Corporations are fixed by the Treasury, and the Treasury uses its discretion in providing guarantees to secure loans to Public Corporations obtainable from Commercial Banks; the common practice is for Corporations to look to Commercial Banks for loans and over-drafts.

9.2 The weakness of the prevailing system is two-fold. Firstly, the authority granting credit facilities and assisting in obtaining such facilities is not necessarily sympathetic towards the relevant Corporations. Secondly, the authorities granting the loan and overdraft facilities, namely the Commercial Banks, are less sympathetic towards the recipient Corporations.

As for the Treasury, it is age-old tradition to delay and obstruct every channel from which money flows out of the Treasury. Though this attitude is not so prevalent today it is not in consonance with the ethos of Public Corporations in the throes of financial distress whether it is their seeking or otherwise.

As for the Commercial Banks their interest would be to invest money on a safe Treasury Guarantee, regardless of the consequences as far as the recipient is concerned.

One cannot be sure that all commercial banks are sufficiently equipped to evaluate investment projects or to assess immovable assets in Corporations for the purpose of granting loans on the security of assets.

It is known that requests for fixing borrowing limits and granting loans take a slow route through the respective Ministries; normally it takes several months, say about 6 months to complete action on a request; during the delay the figures considered become unrealistic; further the basis of the need would drastically change; the need itself would become different.

Even if one assumes that quick and considerate decisions are taken by the Ministries one wonders whether these are economic decisions since the dearth of project evaluation personnel, accountants and economists is known to be felt in the Ministries.

One question can be asked in general regarding granting of funds for the acquisition of assets as well as for temporary loans. In how many instances has the Government given more than what was asked by a Public Corporation on the basis of a scientific evaluation of the request?

9.3 The suggestion made here to remedy this situation is the setting up of a State Corporations Development Bank. The basic idea is that Government's financial dealings with the Public Corporation Sector should be restricted to dealings with the proposed Bank, which would in turn deal with individual Corporations.

The following details are suggested for consideration in drawing up the scope and functions of the State Corporations Development Bank :—

- (1) To receive surpluses from Public Corporations.
- (2) To receive temporary savings deposits from Public Corporations.
- (3) To finance development projects undertaken by the Public Corporation Sector.
- (4) To give credit facilities to members of the Sector.
- (5) To give capital grants to members of the Sector.

- (6) To serve as a clearance house for inter-corporation debts.
- (7) To assist the State Enterprises Bureau in investment, re-organisation and expansion decisions by undertaking evaluation exercises.

10. State Enterprises Bureau: Introduction

- 10.1 A look at the array of problems of State Enterprises of Sri Lanka and the solutions suggested from the stand-point of law and the legal system, clearly reveal one key factor as far as the solutions are concerned. That is the need to set up a State Enterprises Bureau as a central unit for the entire Public Corporation Sector.
- 10.2 The State Enterprises Bureau should be set up by a special statute under a Ministry headed by the Prime Minister. In fact to fit into the existing pattern of governmental organisation a separate Ministry for State Enterprises could be set up with the Prime Minister as the Minister of State Enterprises. The State Enterprises Bureau could be set up as a unit within the new Ministry, the Secretary to the latter being the Director-General of the Bureau.
- 10.3 Powers, obligations, rights and duties of the Bureau should be drawn up in such a way that the operations of the Bureau will eventually cause guided changes in the entire Public Corporation Sector.

11. Functions of the State Enterprises Bureau : Summary

- 11.1 For convenience the proposed functions of the Bureau are considered under five broad headings :—
 - (1) Planning, Programming and Progress Control;
 - (2) Documentation;
 - (3) Co-ordination Services;
 - (4) Advisory Services;
 - (5) Operations.

12. Functions of the State Enterprises Bureau : Planning, Programming and Progress Control

12.1 Information relating to long-term and short-term plans of Public Corporations should normally be available in the Corporations themselves, the respective Ministries the Planning Ministry and now the Plan Implementation Ministry. Either such information should be readily available to the Bureau suitably analysed or the Bureau itself should have the information directly obtained from Corporations.

Owing to political and administrative changes and other problems it is not uncommon to find plans and programmes being merely filed of record for no clear reasons. The Bureau could play a useful role in maintaining planning information and reviewing matters which would otherwise be left unattended to. At least the monitoring of development projects through capital budgets could be ensured.

One might say that this would result in duplication of work since the Plan Implementation Ministry would itself attend to this matter; but apparent duplication is allowable where the scope covers a part of a subject, the reduction in scope increasing the closeness of attention given.

In any event the collection of this information is a vital necessity for some of the other functions proposed for the Bureau.

It is of particular importance for the Bureau to maintain information regarding long-term plans and follow them up.

12.2 Another important fact is that plan implementation should form part of the functions of the Bureau; this is following-up of remedial action decisions.

When progress is reviewed and decisions taken at various levels to remedy certain short-comings all too often such proposals are forgotten by everyone concerned. Existing agencies such as Ministries and the Auditor-General's Department look after this matter to some extent. It is the State Enterprises Bureau which could most effectively collect such decisions, and contribute towards their implementation, because it will be more permanent and less biased.

- 12.3 Particular mention should be made regarding proceedings of the Public Accounts Committee. This committee would be more effective than now if assistance is provided by the Bureau in progress-chasing with respect to remedial action proposals.
- 12.4 The study of proposals for setting up new corporations should be a function of the Bureau. This study will naturally be with particular reference to the long-term plans of the Public Corporation Sector. In this matter the Bureau should be given the power to approve proposals for setting up new Corporations, in consultation with key ministries such as Finance and Planning on particular aspects. It is said that the Public Corporation Sector in many developing countries has expanded at a relatively fast rate. Though fast growth may be an asset in certain respects it would also imply ill-considered decisions.
- 12.5 The question of planning and programming for performance improvement with respect to the Public Corporation Sector has caught the attention of important agencies and individuals during the last few years; yet we have hitherto seen very little concrete results in this regard.

It is submitted that the main draw-back in this connection is the absence of a single powerful agency to design, promote, implement and follow up such programmes.

One might say that this should be left to the Ministries; true, but only in given circumstances; the Ministries will probably play an effective role in this matter after certain preliminary steps are taken by and with the impetus from some other agency, and the latter should be the State Enterprises Bureau.

An illustration would make this clear. Now it is argued that most Ministries are not in a position to design and implement performance improvement programmes since they do not have the required number of personnel with the necessary know-how. It is also known that there are certain training agencies possibly capable of imparting the training needed for performance improvement operations. To solve this problem one cannot expect each Ministry to communicate with all the training agencies, define its training need and examine whether a solution could be offered; even otherwise such communications will not be immediate or simultaneous.

If the State Enterprises Bureau took the initiative the matter would become much simpler, and the solution would be speedy, economical and sure.

12.6 This leads us to another subsidiary but important question, viz., the pooling of existing training facilities. There are several training agencies like the Academy of Administrative Studies, the National Institute of Management, the Sri Lanka Institute for the Study of State Corporations and the University of Sri Lanka. While it is admitted that each of these institutions do some amount of training useful to the Public Corporation Sector, it is doubtful whether the available resources are wisely pooled to achieve set targets. At least it is true to say that among these agencies there is insufficient understanding or co-ordination. The reason is that there is no authority for setting targets, making plans and getting the institutions together.

An integrated scheme providing the necessary training facilities could therefore be made another function of the proposed State Enterprises Bureau. The Bureau could ensure that broad plans regarding training are geared to performance improvement programmes, and the available resources for training are put to the maximum use.

12.7 The Progress Control aspect of the Plan Implementation process is worth special consideration. No amount of charting of progress would ensure remedial action involved with problem-solving where several powerful authorities like senior Ministers, Secretaries and Chairmen are involved.

It is submitted that at least for a period of 10 years no less a person than the Prime Minister should preside at a periodical review of every individual corporation, so that problems of the type mentioned above could be solved with authority then and there. The State Enterprises Bureau will be responsible for organising the reviews. Useful lessons could be drawn from the National Action Council in Malaysia in this connection.

13. Functions of the State Enterprises Bureau : Advisory Services

13.1 The State Enterprises Bureau could render certain advisory services to Ministries for instance in (1) setting up standards for the supervision of Public Corporations under them, (2) organising units within the Ministries for attending to performance improvement programmes and (3) the design, installation and maintenance of proper reporting systems and delegation norms as between the respective Ministries and the Public Corporations in their charge.

These should form part of the functions of the Bureau for they are of such vital importance.

It is discussed elsewhere in this study that Ministries are ill-equipped to handle Public Corporations effectively. Hardly any attempt is being made to change this position. It is submitted that a beginning could be made through the State Enterprises Bureau, for it would have knowledge of advances already made in say one or two Ministries in this connection and also certain techniques adopted in other countries; it could take an overall view of each of the Ministries so that advice devoid of internal politics and personality considerations could be rendered as is usually done to a reasonable extent by centrally placed ministries.

From this it follows that the Bureau would be in an ideal position to advise Ministries regarding standards for the supervision of Corporations and for the design, installation and maintenance of proper reporting systems, as between Corporations and Ministries.

14. Functions of the State Enterprises Bureau: Documentation

14.1 Documentation operations should be made an important aspect of the functions of the proposed State Enterprises Bureau.

Performance improvement has now become a topic discussed among corporation executives when they meet specially at training programmes. They look for instruction or reference to existing documents regarding principles, methods and techniques already tried out or proposed both in Sri Lanka and abroad.

The absence of arrangements for quenching the thirst for such information will naturally have bad effects on the morale and development of managers at this crucial stage.

The ideal place to centralise such information is the State Enterprises Bureau.

14.2 A documentation unit within the Bureau should attend to literature produced both in Sri Lanka and abroad on the subject of public enterprise; this should include even literature of specific interest to one or more Corporations, e.g., Project Reports. The documentation unit should also collect, collate, analyse and maintain data on Public Enterprises processed into systematised information packs. A great deal of waste of effort and frustration would be avoided by providing this service.

- 14.3 In this connection the Bureau should be given the function of liaising with all agencies here and abroad on the subject of Public Enterprise and other related subjects.
- 14.4 The Bureau should serve as a data-bank for information on Public Corporations in Sri Lanka in particular.
- 14.5 The use of a computer in this connection is recommended; otherwise the data-bank might turn out to be a clumsy service not keeping pace with the quick process of decision-making, somewhat characteristic of developing countries whether the subject matter is important or trivial.

15. Functions of the State Enterprises Bureau: Operations

15.1 At present there is no single agency attending to and responsible for up dating State Corporation Law. The State Corporation Division of the Treasury has taken interest in this matter as is evidenced by the new provisions relating to Public Corporations appearing in the Finance Act, No. 38 of 1971.

It is recommended that the State Enterprises Bureau be entrusted with this function; the Bureau will liaise with all Public Corporations, Ministries and other related agencies and in keeping with Government policy move amendments and additions to the law relating to Public Corporations.

- 15.2 Surveillance on the consistency of policies adopted with respect to Public Corporations should also be a function of the State Enterprises Bureau. Inconsistencies arise in various situations; firstly, it could be due to a change in Government; secondly due to change of policy by the existing Government; thirdly due to difference of political views within the Government; fourthly differences of views between Ministers and the Secretaries of Ministries who interpret policy. In most of these cases it is not easy for the Corporation itself or for the relevant Ministry to come out with the inconsistency and solve it. The Bureau is better equipped for that.
- 15.3 It is proposed elsewhere in this study that a statutory body styled as the Federation of Public Corporations ought to be set up. It should be a function of the State Enterprises Bureau to function as a Secretariat to the proposed Federation.
- 15.4 As regards the Public Accounts Committee it is felt that a permanent agency rendering Secretarial Services to the Committee will render the proceedings of the Committee more useful and of sustained and permanent value. It is suggested that the provision of secretarial services to the Public Accounts Committee should be made a function of the State Enterprises Bureau.
- 15.5 Various Commissions and Committees of inquiry are appointed to inquire into the affairs of Public Corporations. There is little knowledge as to the use made out of the findings of such bodies. Being temporary bodies such Commissions

and Committees vanish after some time; their findings also appear to suffer the same fate. It is suggested that the State Enterprises Bureau be made a permanent Secretariat to all Commissions, Committees and the like dealing with one or more public Corporations or matters related to the Public Corporations Sector.

15.6 It should be a function of the State Enterprises Bureau to initiate and conduct experiments to try out new methods, techniques and principles in the matter of setting up and managing Public Corporations.

A few experiments could be tried out in connection with the constitution of Boards of Directors. For instance a particular corporation could be set up with no Board of Directors, or with a functional Board or with other types of composition; the results could be studied by the Bureau for advising Government on the best policy to be followed, in given circumstances.

15.7 No one is responsible for continuously examining redundancies, gaps and superfluities within the Public Corporation Sector. Instances are highlighted now and then regarding cases of more than one Public Corporation being set up for the same activity; none out of several corporations being responsible for a particular activity which is closely related to their objectives; corporations being set up for activities which are reasonably well handled by Government departments or the private sector without examining the rationale of setting up a new institution. In short the rationalisation of the organisation of the entire Public Corporation Sector ought to be a function of the State Enterprises Bureau.

15.8 It would be quite useful for the National State Assembly or rather a Select Committee to receive and consider a consolidated statement on the Public Corporations Sector at regular intervals. The preparation of such statements should be a function of the State Enterprises Bureau.

15.9 Although there are several agencies that might be expected to undertake research into the management of Public Corporations no clear attempt is being made in this vital field. The State Enterprises Bureau could be assigned the function of promoting research activities in the sphere of the management of Public Corporations. A case in point is the trend of industrial relations and the possible resort to violence in the set-up that seems to be developing. Perhaps a study of relevant situations might reveal important hints to guide managers to forestall such unhealthy trends.

15.10 Schemes for increasing productivity have received a great deal of attention during recent years; in fact a little too much enthusiasm has been evinced in installing incentive schemes. Vague attempts are being made to promote worker participation. Some of these schemes, while they might bring immediate benefits, could prove to be harmful in the long-run. They might even cause inconsiderate wage demands. Hence a central authority should closely follow up productivity schemes in Public Corporations; the State Enterprises Bureau could undertake the function of studying and authorising productivity schemes.

15.11 It is discussed elsewhere in this study, how the feeling of insecurity of Chief Executives in Public Corporations adversely affects their performance. The solution suggested is the setting up of State Corporations Managerial Service.

In fact it is submitted that at the initial stages this service should be operated by the State Enterprises Bureau although at a later date the appropriate Ministry could take it over.

- 15.12 The design of the service, drafting of legislation for it, actual institution of the service should all be essential functions of the Bureau.
- 15.13 When inter-ministerial problems arise Public Corporations should have a ready mechanism for their quick and effective settlement. Here again in order to avoid personality problems and slowness of routine direct reference of such problems to the State Enterprises Bureau should be facilitated; this can be made a function of the Bureau; in such matters the decision of the Bureau should be final.
- 15.14 Elsewhere in this study it has been suggested that performance standards and performance measurement criteria ought to be implemented by the respective ministries; due to lack of training and the novelty of some of these exercises disputes will naturally arise between Ministries and the respective corporations. Although the Ministry view will normally prevail the whole scheme might fail if at the outset the Ministries again assert their 'superiority' over corporations. Hence disputes regarding the implementation of a Performance Improvement programme should be referred to the State Enterprises Bureau and its decision should be final.
- 15.15 It has been suggested elsewhere in this study that inter-corporation disputes should be referred to a Special Court set up for this purpose. However it would be appreciated that all the sundry disputes cannot be taken to a Court of Law; hence up to a certain level, such disputes ought to be settled by the State Enterprises Bureau. One might question whether the Ministries cannot attend to this when the disputants are under the same Ministry. Such a course is not recommended. When individuals are considered the judge might well be one of the disputants in reality; at least the judge is too close to one or both parties. It is worse since the Minister might take personal interest and direct the Secretary to the Ministry to implement a settlement which is more political than managerial for which one cannot blame the Minister, for he is a politician more than a Manager. Hence it should be a function of the State Enterprises Bureau to adjudicate on inter-corporation disputes up to a certain defined level.
- 15.16 As a practical need the scope of operation of the Bureau in this connection could be extended to cover cases in which one of the disputants is a Government department, Ministry or other governmental agency, and the other is a Public Corporation.
- 15.17 As to whether certain circulars issued by Government departments and Ministries are binding on Public Corporations is often debated; some Corporations do follow nearly all such circulars as are applicable; the practice in others varies

widely. The usual ones that are questioned come from the Ministry of Finance and the Ministry in charge of Public Administration. Once there was a circular from one Ministry increasing Employees Provident Fund Rates; sometime later another Ministry sent out a circular reducing these rates. Although the circulars went in opposite directions, the effect on Public Corporations was in reality in one direction and that was to increase the wage bill.

It is imperative that legal provisions be made and existing provisions clarified and amplified to settle this issue.

15.18 Legal provisions only can remedy this situation; for, this is one area in which administrative practice has almost transgressed statue law. In the State Industrial Corporations Act, No. 49 of 1957, for instance it is provided under Section 31 (1)—that the Minister may from time to time give the Board of Directors (among other things) general directions. This implies that circulars from other sources should be converted into 'Ministry Circulars' before they become applicable in corporations under the particular Ministry. This is not done with any degree of precision or regularity and the net effect is confusion which to some extent has caused the acceptance of all external circulars, by some Public Corporations; some attempt has however been made by the Industries Ministry in regulating the passage of external circulars.

15.19 It is submitted that legislative provision be made to exclude circulars from Departments and Ministries other than the relevant Ministry, from applicability in the Public Corporation Sector; simultaneously a general act on Public Corporations should enable the State Enterprises Bureau to receive all such circulars and for the Bureau to issue suitable circulars to Public Corporations where it is considered necessary by the Bureau.

15.20 It is sometimes argued that such circulars ought to be vetted at the respective Ministries but this contention is closer to a myth than a real need.

15.21 The provision of mechanisms for the pooling of resources as among Public Corporations should be a function of the State Enterprises Bureau.

Questions regarding scarcity on one side and surpluses on the other with respect to resources that are on the whole either scarce or problematic, often arise within the Public Corporation Sector but the absence of effective mechanisms for exchanges results in waste of resources in some places as well as the slowing down of programmes at other places, for want of resources.

Skilled personnel, spare-parts, machinery and equipment, raw materials, expertise, etc., are among such resources.

A simple example regarding expertise could be given. Where new Corporations attempt to set up documentation units, they usually do not have expertise whereas older and bigger corporations do have such expertise which they can well afford

to spare, possibly for a fee. Scores of cases like this could be cited. Spares which do not move within one corporation could be made available to another which has hardly any means of procuring them due to foreign exchange difficulties.

15.22 The State Enterprises Bureau should also be given the responsibility to serve as a clearance house for inter-corporation transactions; perhaps not involving money. One way in which this could be operated would be to use the Bureau as a useful meeting place for Corporation representatives, thus reducing communications to some extent.

15.23 In the same way the State Enterprises Bureau could provide a common office at a given place for all Public Corporations. For instance, wharf and purchasing departments of corporations located outside Colombo will find it useful to have an agent in Colombo.

15.24 The same facility could be extended in outstations where the Bureau will provide office facilities for all interested Corporations.

This would help reduction of costs and rationalisation: hence this should be made a function of the State Enterprises Bureau.

15.25 A very similar problem arises when new Public Corporations are set up. It would be interesting to examine how each Public Corporation was organised during the initial stages, specially during the first year; how much of time, money and effort was wasted in these exercises. A simple solution to this problem is to legally compel all new Public Corporations to be set up using the State Enterprises Bureau as Secretaries and Accountants. In fact a small ready-made shadow unit for this purpose could be maintained at the Bureau.

This is not so trivial an issue as it might seem at first sight. The rot that gets into Public Corporations as they are formed and during the initial period, grow into mammoth problems as time goes on. It would be most revealing to study how much of the current problems of each Public Corporation dates back to the initial period of its existence.

15.26 No Corporation should be authorised to set up its own independent organisation before a certain date laid down statutorily except with the approval of the State Enterprises Bureau.

15.27 A very important role that could be played by the State Enterprises Bureau is the provision of facilities for maintaining reasonably uniform and coherent standards with regard to salary scales, job specifications, job descriptions, conditions of service, fringe benefits, incentives, etc.

It is common knowledge that communications among trade unions, as regards improvement of terms and conditions of service are much faster than among say, different public Corporations. The result is that when new demands are put up

in one corporation, a precedent (usually not known to the management) in another corporatoin is quoted. The delay in verifying facts usually generates heat in labour relations.

This problem is well known; in fact a special Cabinet Sub-Committee has gone into this question and made its recommendations.

It is recommended that this matter should form an important function of the State Enterprises Bureau. The provisions in the proposed enactment in this regard should be detailed, extremely precise and carefully worded.

Some of the principles to be applied in drafting the relevant provisions are set out below:—

- (1) No attempt should be made to have exactly the same terms, conditions and salary scales in all Public Corporations.
- (2) Scientific job evaluation should be encouraged and such evaluations must be used in rate-fixing.
- (3) Every attempt should be made to see that comparable posts in different corporations of the same size and type of business attract nearly equal salaries.
- (4) Where Corporations of different types and size have similar jobs standards, a scheme should be evolved to compare these and reasonably comparable salary scales should be set down for such jobs.
- (5) Fringe benefits should in general be discouraged but allowed where there is good reason to do so.
- (6) Every attempt should be made to have reasonably comparable job specifications for jobs that have the same content.
- (7) the adoption of general and inclusive designations should be encouraged as against specific designations in relation to rate-fixing.
- (8) The general system followed should allow for reasonable mobility within grades, e.g., as among clerks, typists, stenographers, storekeepers.
- (9) Where special conditions and salaries are required, these should be decided solely on the basis of the "market principle" and made operative for a limited time.

15.28 The State Enterprises Bureau should be entrusted with the maintenance of an updated model manual of operative procedures for Public Corporations. Provisions should be made to compel Public Corporations which do not have their own manuals to adopt the model manual until and unless they adopt their own manuals.

15.29 A school of thought has arisen in this country that rules, regulations, procedures and the like are remnants of an old administrative system and they are of no use in running Public Corporations, on commercial principles; this school has probably arisen as a weak apology for inefficiency in defining rules and concentrating managerial discretion only in the solution of exceptional problems.

Management of Public Corporations in Sri Lanka will be much more meaningful and sensible if the function of enforcing a model manual of operating procedures is given to the State Enterprises Bureau. It would certainly help in cost reduction and in increasing the incidence of considered management decisions, discretion being reserved for use only where it is worth being used.

15.30. There is some amount of discomfort among managerial circles who believe that the demand by Government for surpluses out of profits and the directives sent on various other matters cannot always be reconciled. It is not easy to comment whether this is true.

It is submitted that statutory provision be made to enable any Public Corporation, which considers that a particular directive from the relevant Ministry or any other Ministry is such as to cause a depletion of its assets against its wish, to ask for compensation from the State Enterprises Bureau. The Bureau having settled the demand will then ask for re-imbursement under the Statute from the relevant Ministry; if this system is adopted, some financial provision in the nature of a 'penal vote' should be made under each relevant Ministry; a change with respect to the latter could be made through a Finance Act for convenience.

15.31 Similar provisions should be made for compensation payable to Public Corporations with respect to inordinate delays in dealing with a matter placed by a Public Corporation before the relevant Ministry or any other Ministry. Here again the decision to pay and the payment should be made by the State Enterprises Bureau.

16. Management Research Institute

It is true to say that at the national level in Sri Lanka, there is no planned, coordinated, organised effort directed at management research, although it is put down as a subject allocated to certain governmental and Government-sponsored organisations.

It would be appreciated that research should have been the forerunner in the effort to improve the performance of Public Corporations; but probably it would come last.

Most suggestions that are made for the betterment of the Public Corporations Sector are based on estimations and not on opinions built on research.

It is submitted that a modest beginning be made to establish a Management Research Institute which will as part of its activities, conduct research into the functioning of the Public Corporation Sector.

Such a Law would have a more far-reaching effect than it seems it might; for today there are Public Corporations which (1) have no manual of operative procedures (2) assume that they have such a manual but it cannot be easily identified (3) use a

maze of rules consisting of an old manual, amendments that cannot be related or traced, the financial and administrative regulations of Government, Board decisions, etc., all put together in a grand mixture.

It would be surprising how some Public Corporations still manage to show their heads up in spite of this type of wasteful confusion.

It might be recalled that when the early Industrial Corporations were set up under the Industrial Corporations Act, No. 49 of 1957, Section 34 provided that "(1) The Minister may by regulation made under this Act provide for the application to the corporation, with or without any modification, of any provision of the Companies Ordinance. (2) The provision of the Companies Ordinance, other than the provisions of that Ordinance which are made applicable to the Corporations by regulations made under this Act, shall not apply to the Corporation".

Now the Companies Ordinance, Chapter 142 of the Legislative Enactments of Sri Lanka, has a set of Tables of Regulations appended to it. It would be revealing to examine how many Public Industrial Corporations (1) by regulations made under the Act adopted any of these tables or regulations, under the Companies Ordinance and, how many, (2) adopted fresh regulations under the authority of Section 39 of the State Industrial Corporations Act, No. 49 of 1957, which enables the Minister to make "regulations for the purpose of carrying out or giving effect to the principles and provisions of the act in respect of matters for which regulations are authorised or required by this Act to be made".

Public Enterprise:



The Concept, the Rationale and the Role*

V. V. RAMANADHAN

Introduction

IT is desired that this paper, to be presented at the Seminar on Public Enterprise to be held in Jamaica in October, 1976 at the aegis of the Commonwealth Secretariat, should cover the concept of public enterprise, the rationale for and the role of public enterprise as understood in various socio-political contexts and should refer, in particular, to questions of ensuring consistency with national social and economic objectives. The area that the title of this paper suggests is so wide that at several points the presentation has necessarily to smack of an outline.

Moreover the precise role of public enterprise in a country is a function of the sociopolitico-economic context in which it functions, though a general under-current
common to most countries, in particular to most developing countries, may be inferred
from empirical evidence. It is on this basis that this paper proceeds, trying, however,
to introduce certain points of specific application to the Caribbean region. It is
hoped that the propositions that may be drawn from this paper will be discussed
in the light of the specific situation and experience of the participating countries of
the Caribbean in the realm of public enterprise and national development.

2. The Concept of Public Enterprise

For the purpose of our discussion, the term "public enterprise" may be understood to signify an economic activity of which the majority ownership or managerial control vests in the Government and/or other public agencies. An important aspect of this description is the majority concept. While it is as high as 100% in many cases, it can be 51% and by legal definition make the enterprise public. It is possible further, that even the enterprises in which the Government has a significant, though not 51%, share in ownership, get endowed with characteristics of public enterprises in de facto terms, the more so when such ownership is a product of governmental policy. We shall have occasion to refer to this idea in the course of the paper, when we consider mixed or joint enterprises.

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The other essential aspect of the term public enterprise relates to the nature or character of the activity covered by it. While conceding that this may look arbitrary in certain cases, we shall limit the term "enterprise" to signify an activity whose costs, primarily, are expected to be financed from the sale proceeds-generally and in the long run.

3. The Rationale for Public Enterprise

- (a) The most familiar reason why public enterprise emerges in a developing country is that there are certain economic activities which the Government desires to promote but private enterprise does not or cannot. This popular proposition calls for several qualifications.
 - (i) Private investors may not be interested in undertaking activities-basic, infra-structural and heavily capital-intensive-which are marked by long periods of gestation for and these are important considerations, if not assumptions-they have, for their sizes of capital resources, alternative channels of quickly-yielding investment, and they are not quite certain of being allowed to enjoy high profits in the post-gestation future period that compensate for the losses in the gestation period.
 - (ii) Or, domestic private investors may not be able to raise the large capital resources needed for establishing certain heavy or capital-goods industries which, in the view of the Government, the country needs. And the Government does not wish these fields to be an open area for private foreign owner-ship.
 - (iii) Or, in a slightly different version, the situation may consist of the lack of needed technology on the part of the nation, which entails its import; and the Government may wish to regulate, if not control, the incoming technical collaboration, most commonly accompanied by capital resources, in such a way that the projects end up in the public sector.
 - (iv) Or, the economic activities, whose profitability can be attractive to private investors, may be considered by the Government as infra-structural or developmental-promotive of further economic activities, such that the Government prefers low-price, even "uneconomic" price, policies on their part for an indefinite period of time-hardly an inducement to private investors.
 - (v) An allied version may be that the Government considers certain activities as strategic or the commanding heights of the economy and wishes to be in positive and dynamic control of their price and other operating policies.
- (b) Many developing countries have national development plans (usually for five year periods, supported by long-period perspective plans). While we cannot generalise on the content of the plans, it is fair to suggest that many of them postulate sectoral priorities in development, if not active resource allocations. It is obviously the responsibility of the Government to ensure that these are accomplished. Wherever

their accomplishment falls short of the plan schedules on grounds such as those covered in the above paragraphs, it devolves as a residual responsibility on the Government to sponsor the programmed activities. Herein lies an automatic interrelationship between planning and the emergence of public enterprise.

- (c) Another relevant aspect of some national plans, viz., income and wealth distribution policies, may be considered under the broad head of governmental budget policies that can have a connection with the rationale of public enterprises. These may appeal to the Government as a convenient instrument of raising the incomes of certain preferred groups of consumers or workers, of restricting incomes of certain groups, e.g., top managers, of curtailing the chances of private accumulation of gain through capital appreciation, of giving incentive to such desired values as the development of a backward region or depressed activity, export stimulation, and import substitution, and so on. Enterprises that conveniently enable the Government to achieve such national aims, through their policies of employment, wages, procurement of materials, pricing structures, dividend declaration, sales strategy, etc., may be sponsored or brought into the public sector, on the governmental assumption that they offer themselves as a preferable or more convenient instrumentality than budget decisions.
- (d) One of the factors that led to the widening of the public enterprise sector in some countries relates to the extent of foreign-owned enterprise which the Government wishes to bring into domestic hands. Where private investors are not sufficiently forthcoming to take care of the transfer, the Government may have no option but to take it over under its own auspices. In some cases this process may be closely mixed with other considerations that intensify the choice of the public sector, e.g., heavy capital intensity, sophisticated technology, continued collaboration from foreign skills and infra-structural nature of the activities. In some situations the attraction for the Government's decision to convert the nationalised (foreign) enterprises into public enterprises rests on their established profitablity. (This should appeal specially to Governments that already have predominantly losing public enterprises). There may also be cases where the negotiations regarding the take-over as well as the watchful regulations that certain continuing post-take-over foreign connections may need, involve the Government so closely with the whole action as to induce it in favour of bringing the taken-over activities into the public sector.
- (e) There is a unique consideration favouring the advent of public enterprise in the case of small countries—contiguous or neighbouring. In certain fields of activity considerations of economies of scale may certify to the desirability of the establishment of a large or economically sized enterprise in one of the countries answering, however, the market requirements of the others as well. This calls for intercountry co-operation and agreements, for the best chance of success of the enterprise. If the countries in question disfavour the emergence of a gigantic "foreign" or multi-national corporation from outside the region and from a developed nation, they may decide that the most appropriate course open to them consists of an inter-country enterprise of the region at the aegis of the Governments concerned.

Apart from preserving for every one of the countries concerned the economies of scale in respect of the activities undertaken, such an enterprise can hold under check duplicatory establishments being registered here and there in the region: and what is more significant, it can help in the conservation of highly scarce technical and managerial resources for the most economical use. It can also be hoped that such a "community"-oriented enterprise, with the Governments concerned as the owner-sponsors, solves most amicably questions of inter-country relativities of interest in various matters as well as eliminates all chance of unfair private gains in the inter-country transactions.

This idea has its beginning already, though in a small manner, in some parts of the world. It deserves serious consideration in many regions where contiguity individual smallness and regional technological complementarities significantly characterise the countries.

4. The Role of Public Enterprise

One can draw inferences on the role of public enterprise from the rationale for it outlined above. One of the ways in which this may be presented is to highlight three major functions that enterprises in the public sector may be expected to serve in developing countries.

Firstly they have a business role. This may be understood as an expression in brevity, conveying such ideas as the following: that they supply a product or service that is demanded, that they have the usual operational motivation of business units to make a surplus, and that their operational or managerial functions are, by and large, market-oriented. Enterprises playing this role come nearest of all public enterprises to the private sector, though there is something distinctive about them in the rationale of their being in the public sector, i.e., on some special ground outlined in the previous section.

Secondly, public enterprises have a developmental or promotional role, in that they may be assigned responsibility for promoting a specific or some broadly visualised social or economic development—e.g., the expansion of a basic sector of activity, the promotion of small-scale industry, the stimulation of entre preneurial habits, the development of a backward region, or the promotion of employment or export-earnings potential. In broad terms the end product of performance of such enterprises goes beyond the basic concepts of producing and selling a given output and of raising a surplus. The most conspicuous examples of the developmental category are the developmental finance corporations, industrial development corporations, unit trusts, research development corporations and regional development corporations. Today almost every developing country has, or is trying to establish, some such enterprises in the public sector. While these are public enterprises it is not necessary that the enterprises they develop or promote or aid are themselves public enterprises.

Thirdly, public enterprises have a distributional role, in the sense that they are expected, as far as possible, to conduct their operations in such a way as to subserve or accelerate the Government's intentions in the field of income and wealth distribution.

Most of the socio-economic responsibilities of public enterprises can be brought within the above classification. Distinct reference may, however, be made to relatively minor role, viz., the regulative role. That is, some public enterprises may be sponsored in selected sectors of activity with the object that, through their pricing, procurement, wage, etc., policies, they effectuate the purpose of regulation that the Government has in mind with reference to the sectors of activity concerned-e.g., low price of bread or low interest rates on agricultural finance. In this sense the public enterprises concerned are in the nature of a substitute for regulatory administration.

5. Some Comments

It would be useful at this stage to note some points of critical review on the preceding outline on the role of public enterprises.

- (a) It is easy to infer from the above classification of their role that in almost all categories there is need for compatibility between public enterprise operations and the socio-economic objectives of the country or the Government. Apparently of relatively small importance this is real even in the first so-called business role; for one of the basic aspects of the operations concerns the raising of a surplus-the fact of surplus and the size of surplus. This depends not only on the market conditions (representing all aspects of cost and price strategy) but on the way in or the extent to which the Government wishes public enterprises to avail of (or exploit) favourable market conditions for surplus enhancement of maximisation. There can be no uniform rule on this, which is applicable to all public enterprises : and the differential approach to the imposing of extra cost levies through the prices of public enterprises and to the offer of below-cost subsidy elements in certain prices is strictly a prerogative of the Government to determine and enunciate. This may not be recognised sufficiently or exercised meticulously by the Government; yet the need exists for bringing the operating, particularly pricing, decisions of public enterprises within the basic budget policies of the Government towards the taxation of given products or markets and the subsidisation of certain others.
- (b) The discussion now takes us to an interesting practical question that applies, in varying degree, to all facets of the role that public enterprises may be expected to play: have proper systems been devised in the developing countries, firstly, for the governmental enunciation or stipulation of the national objectives that each public enterprise or category of public enterprises is expected to work towards and, secondly, for their meaningful disaggregation, wherever necessary, and communication to each unit of top managerial decision? Empirical experience is rather discouraging on this question. One lesson, however, that it offers is that we have reached a stage, in respect of the institution of public enterprises, where great importance should be

attached to the devising of the modus operandi for the realisation of the conceptual role of public enterprises. This is not easy but it cannot be postponed except at the peril of keeping the gulf wide as between expectations and attainments in the field of public enterprise. One familiar example of the gulf is in the area of surplus generation by public enterprises; while in a few countries these enterprises are claimed to have come of age—at least in major segments, many countries still witness a poor showing in this respect.

- (c) Several major questions concerning the institution of public enterprises flow directly from considerations of their role. Let us take as an apportant illustration, the concept of managerial autonomy, which covers such ideas as ministerial supervision, parliamentary control and public accountability and can even touch on board composition. Apart from a few general principles on these subjects the actual bulk or weight of external interventions-which may range over advice, supervision, control, questioning and interference—that should exist in the case of a given enterprise or category of public enterprises ought to be a function of the precise national, socio-economic values with which it is characterised. The more significant these values, the stronger the case for external impacts, and vice versa. That the identification of the extra-enterprise objectives and the imputation-cumqualification of the relevant ones to the individual public enterprise or categories of them are basic to this whole question. If such an exercise is absent or inadequate, will be a tendency for far too general positions to develop on the question of managerial autonomy and for ad hoc and unscientific measures and practices of external intervention in public enterprise management. This is the position in most countries today; and it may remain so as long as the basic, undoubtedly difficult, tasks of enunciation of the socio-economic objectives of public enteprises, in a manner meaningful to them at the operational level, are left unattended to.
- (d) Another important aspect of the role of public enterprise that may be highlighted in the present context is that in respect of many of them the import of all objectives or obligations attributed to them is not quite similar (few public enterprises have exclusively one of the three (or four) roles outlined above). For instance an enterprise which is expected to raise a surplus experiences the need for policies that are restrictive of that objective when it turns simultaneously to certain other socio-economic objectives such as employment promotion, export stimulation or regional development; or while it is expected to raise productivity, it is under the impact of countering measures in respect of the production function. How do the managers act in such situations? Several alternatives exist: they can maximise one aim, to the neglect of others, and they can do so consistently over a period of time or shift from one aim to another from time to time: they can effect a compromise among the aims, as per their own interpretations, and these can vary from time to time and mangerial team to team: they may be passive and respond to each aim or objective indifferently: they may receive ad hoc instructions from the Government in favour of one objective or another from time to time, not necessarily consistently: and so on. None of these represents the best course of action, which consists of the managers being informed of what objective mix constitutes their responsibility.

It is true that this needs revision from time to time, in accordance with the changing weights attached to the non-commercial or extra-enterprise benefits expected of their operations. For example, low prices on electricity for agricultural operations may be desirable in the initial periods, but a time comes probably when agriculture in the area concerned attains a level of development that justifies price revisions by the electricity enterprise.

(e) In conclusion we may refer to the concept of a joint enterprise, in which the Government and private investors have ownership interests. The reasons why such an enterprise comes into existence are diverse: a private enterprise may have been nationalised with the Government stepping in with capital while allowing the former investors to remain as shareholders: the Government may invite foreign capital as part-owner in a new-technology enterprise : the Government may subscribe to part of the capital of a new enterprise in order just to inspire confidence in private investors towards investment: the Government may retain an ownership share so as to influence the management in favour of its extra-enterprise objectives : the Government may just intend to be watchful, as part-owner, of the ethics of management : the Government may treat partial ownership as a first step to eventual nationalisation of an enterprise: the Government may prefer diffusing its limited investment resources over a wide area of public enterprises by pursuing, not total, but partial ownership in every case; and so on. Except in a few cases of minority ownership by the Government, the purposefulness of private participation in enterprise ownership needs careful consideration. The essential question is : how real would its managerial impact be in the context of majority ownership by the Government? It is generally claimed that such a joint enterprise guarantees the good results of private managerial behaviour, efficient management, and so on. Whether this is true in practice is a difficult question to generalise upon. How assertive, or otherwise proportionately to ownership, governmental share in management tends to be and how significantly it leans towards extra-enterprise objectives. It is possible that in some cases, particularly where foreign capital is invited as part investment, an adequately effective role is given to the non-government investors in the interest of good management of a sophisticated-technology enterprise.

The Public Enterprise as a Development Unit: The Indian Experience

R. K. Sethi

I.—Rationale

- 1.1 Developing countries are faced with the facts of poverty, unemployment, desperately low standards of living and large and exploding populations. To meet the human aspirations of these vast populations, the impetus has been towards assumption by the State of the responsibility for setting national development goals and objectives, and for directing the flow of men, money and materials towards their achievement.
- 1.2 For the implementation of programmes of such magnitude, therefore, State initiative becomes an imperative must. It is thus that Public Enterprise has come to assume a significant position in the development of national economies. It is natural that the shape, pattern and personality of the Public Enterprises of a Country are conditioned and influenced by its ethos, political philosophies, historical background, traditional usage and customs, geographic and natural conditions and above all, by the conscious adoption by the society of a pattern of living and of agreed national goals and aspirations.

India has been no exception to these complex conditions and circumstances and the growth of Indian Public Enterprises has to be viewed and judged in the context of their total environment.

- 1.3 In broad terms, the rationale and objectives of the Public Enterprises in India cover the following:—
 - (i) To ensure a planned and efficient growth of productive effort, particularly in fields critical to national development;
 - (ii) To serve as a national instrument for the evolution and implementation of appropriate policies and procedures of work and management;
 - (iii) To generate resources through efficient performance for achieving the goals of national economic development;
 - (iv) To strive for the creation of greater and better employment opportunities and training in new industrial and economic skills;

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- (v) To serve as an instrument of national policy for the uniform economic development of all parts of the country;
- (vi) To stimulate research and development and to build up indigenous technologies leading to optimum self-reliance;
- (vii) To ensure that the ecological balance is not unduly disturbed.
- 1.4 The Public Sector in India is constituted of three distinct types of undertakings:—
 - (i) The Departmental Undertakings of the Central Government which include the Railway System, the Post and Telegraph System, Radio and Television, etc.;
 - (ii) Enterprises of the Governments of States of the Union which include substantial investments in power generation and distribution, passenger road transport, agro-industries and local industries;
 - (iii) Central Government Public Enterprises which cover a vast gamut of industrial, commercial, financial and infrastructure development activities.

It is the last Group which forms the hard core of Public Sector development in India. This paper relates essentially to the growth and experiences of the Companies in this Group.

- 1.5 It was Pandit Jawahar Lal Nehru, the first Prime Minister of free India who had, even earlier, evolved the concept of a Public Sector as being critical for India's economic development. Under his wise guidance, a deliberate and conscious policy to foster and develop Public Enterprises in India was taken soon after Independence in 1947. The policy framework for the growth of Public Enterprises was specifically and categorically declared by the Government of India in the shape of two industrial Policy Resolutions, the first one in 1948 and the second in 1956.
- 1.6 The Industrial Policy Resolution of 1948 called for a dynamic national policy directed "to a continuous increase in production by all possible means, side by side with measures to secure its equiable distribution". For implementing this policy, the Resolution stressed on the need for "the State to play a progressively active role in the development of industries." At the same time, it indicated that "private enterprise properly directed and regulated, has a valuable role to play". The public and private sectors were thus given complementary roles to play.
- 1.7 The need for further amplification of this policy arose due to subsequent development in the political and economic spheres. The Directive Principles of State Policy enshrined in the Constitution of India adopted in January, 1950, very specifically indicated the socio-economic goals. Thus it was that the Industrial Policy Resolution of 1956 declared that: "the adoption of the socialistic pattern of society as the national objective, as well as the need for planned and rapid

development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the Public Sector. Other industries which are essential and require investment on a scale which only the State, in the present circumstances, could provide have also to be in the Public Sector. The State has, therefore to assume direct responsibility for the future development of industries over a wider area."

The revised Industrial Policy Resolution of 1956 classified industries into there categories having regard to the part which the State would play in each of them:—

- (i) Schedule 'A' industries, the future development of which is to be the exclusive responsibility of the State effort (Annex I);
- (ii) Schedule 'B' industries, which would be progressively State-owned and in which the State would, therefore, generally take the initiative in establishing new undertakings, but in which the private sector would also be expected to supplement State effort (Annex I);
- (iii) All the remaining industries and their future development are generally left to the initiative and enterprise of the private sector.

The Resolution, however, made it clear that "the division of industries into separate categories does not imply that they are being placed in water-tight compartments. Inevitably, there will not only be an area of overlapping but also a great deal of dovetailing between industries in the private and the public sectors".

Stressing the complementary role of both sectors, the Resolution declared "further heavy industries in the public sector may obtain some of their requirements of lighter components from the private sector, while the private sector in turn would rely for many of its needs on the public sector".

- 1.8 The Industrial Policy Resolution of 1956 is still a fully operative and valid policy with a few new facets added to it. One important facet is that the growth of private investment in certain industries is now not freely allowed to the large private industrial houses and foreign multinational Corporations. Another new aspect is the conceptualisation of Joint Sector Enterprises in which the Government and its agencies join hands with private entrepreneurs.
- 1.9 This has been the rationale for the establishment and growth of Public Enterprises in India. This phenomenal growth has, however, not been circumscribed by any very rigid approaches but by continuously making adjustments to suit changing circumstances and needs. As the then Prime Minister of India, has said, "—— there can be no stereotype for the public sector. It must grow, evolve and change with the time. In another twenty years, the public sector might well be larger than the Government in terms of personnel and budget. A new generation of industrial and scientific civil servants will have come into being. We have to plan for that day".

II.—The Investment Portfolio

- 2.1 For an easier appreciation of the growth of Public Enterprises of the Government of India, and their contributions to national objectives, it would be well to recall the shape of the invesement portfolio of the Public Enterprises owned by the Central Government over the last 20 years. The Catalogue of Central Government Public Enterprises as at the commencement of fiscal 1975 may be seen in Annex II.
- 2.2 While the number of Central Government Public Enterprises was merely 5 with a total investment of £21 million in fiscal 1950, i.e., at the commencement of the first Five-Year Development Plan, these have steadily risen to 137 with an estimated investment of a little over £6,070 million. An idea of the growth in the numbers and investments in these Enterprises (including operational and under construction) can be had from the following:—

Fiscal			o. of erpirses	Investmet (£ million)
1950			5	 21
1955			21	 58
1960			42	 680
1965		Sec. 1.	74	 1,725
1970			97	 3,345
1974			129	 5,187
1975	risional)		137	 6,070

An analysis of the above investment pattern relating to these Public Enterprises reveals certain interesting features.

- 2.3 A most significant fact is that these Public Enterprises have arisen out of State entrepreneurship and not through a process of nationalisation of private Companies. It is true that in a few cases ownership has been acquired by the State through nationalisation and through take-over of private enterprises facing closure and bankruptcy through mismanagement. These, however, are the exceptions and not the rule. The basic concept has been that the State has entered the field as an investor and entrepreneur putting in its own money, carrying its own risks, building up its own technologies and cadres.
- 2.4 Bulk of the investment has been in the fields of steel, mining and heavy engineering. All these industries require enormous capital investment and are subject to long gestation periods with relatively low profitability. Such investments were totally beyond the capacity of the Indian private sector, and for pragmatic reasons Government had to make these investments.
- 2.5 A very large proportion of the Public Enterprises do not operate in monopoly conditions. Even in the crucial fields of steel, aluminium, fertilizer, cement machine tools, drugs, textiles, etc., Public Enterprises are operating side by side with Companies in the private sector.

2.6 While in the earlier stages, Public Enterprises concentrated on the basic and infra-structural area, there has lately been a progressive move towards the production of intermediate and finished goods. Recently, the Committee of Parliament on Public Undertakings has made a strong recommendation to Government that the Public Sector should now move into the field of consumer goods production. This is aimed at ensuring availability of essential goods of daily need to the vast population of the country at reasonable prices. At the same time this will provide a better balance in and development of the investment portfolio. It is not a desirable situation that the investments are unbalanced and are concentrated only in the low profitablity areas.

III .- Financial Performance

- 3.1 Looked at in the context of the broad objectives set for these Public Enterprises, judgement on their performance based merely on financial returns on investment would not reflect their total contribution to national development. This is not to decry the importance of surpluses to be created by these Enterprises, but to draw attention to the need for examining other aspects also which impinge on the objectives of Public Enterprise in India.
- 3.2 Financial Performance.—The financial working results of the operating Public Enterprises in fiscal 1960, 1965, 1970, 1974 and 1975 (provisional) are aggregated below:—

Fiscal		No. of Operating Companie	Total $Investment$ $(£ Million)$	$Total \\ Turnover \\ (\pounds Million)$		Gross Profits (£ Million)	Net Profits before taxes (£ Million)	Net Profits after taxes (£ Million)
1960	-	32	 161	147		9	0	
1965		57	 1.488	722		37	 8	
1970		89	 	 			. 24 .	
1974					1	105	. 14 .	. (-)3
		121	 5,123	 7,298		400	 223	. 131
1975 (provisio	onal)	125	 5,825	 8,572		500	 322 .	. 215

3.3 Return on Capital Employed.—The gross return on capital employed, represented by net fixed assets and working capital, over the years has been as follows:—

Fiscal			Return on Capital Employed
1960			5.4 per cent.
1965			4.3 per cent.
1970			3.9 per cent.
1974			8.4 per cent.
1975 (provisional)	• •	**	9.0 per cent.

3.4 Resource Mobilization.—One of the important objectives set for these Public Enterprises is to generate reserves and mobilize resources for further national development programmes.

The internal resources generated by these Public Enterprises, represented by retained profits and depreciation, over the period have been as follows:—

nternal Resources (£ Million)
15
61
146
415

The contribution of these Public Enterprises to the Exchequer during the years under review, in the nature of Dividends, Interest, Income Tax and Excise Duties was as follows:—

Fiscal	E:	tribution to cchequer Million)
1965		107
1970	 	607
1974	 	807

During the country's Fourth Five-Year Plan, covering fiscal period 1968 to 1973 these Public Enterprises generated internal resources comprising depreciation and retained profits to the extent of £ 900 million. The contribution to the Central Exchequer by way of dividends, interest, taxes and excise duty was another £ 2,228 million. Thus, the total resources generated by way of contribution to the Central Exchequer and retained by the Enterprises thus amounted to £ 3,128 million. The magnitude of these resources generated by the Public Enterprises becomes significant when one sets this figure against the investment made in the Public Enterprises during the same 5-year period, which amounted to only £ 1,383 million. The balance of £ 1,745 million was thus contributed by these Enterprises to the development of other national activities.

3.5 Profitability of Operations.—Criticism has, at times been voiced that Public Enterprises in India are losing concerns. Such critism overlooks the fact that a preponderance of the investments relate to basic and infra-structure industries, all of which necessarily involve long gestation periods and relatively low returns on investment, but which are critical for effective economic development. Many of them are only just emerging from such periods of gestation and learning.

Consequently, their profitability also has begun to improve as will be apparent from the following figures:—

	1960	1965	1970	1974
No. of Operating Companies No. of Operating Companies whose performance resulted in profits	32 · 23 ·	0.0	. 89 50	121 81

3.6 Consolidated Financial Position.—The consolidated Profit and Loss Account of all operating Companies taken together and of those producing goods and rendering Services, separately, may be seen in Annex III.

3.7 The foregoing are some of the important financial and other indicators of performance of the Public Enterprises of India. Even the most die-hard critics would have to agree that, many mistakes and difficulties notwithstanding, these Public Enterprises in India have steadily moved to maturity and are today making a significant contribution to the achievement of set national objectives.

It has, however, to be remembered that operating profitably and generating resources for national objectives are not the only objectives set for these Public Enterprises. As mentioned earlier, they have been set many other important objectives. These are difficult of being quantified in the same way as financial results They are, therefore, dealt with separately in the next Section.

IV .- Contributions to National Objectives

- 4.1 A reference has been made in Section I of this Paper to the primary objectives of the Public Enterprises of India. Their performance in quantifiable financial results, etc., have been mentioned in Section III. One may now examine the extent to which they have been able to contribute to their other broad objectives.
- 4.2 Physical Performance.—The growth of productive capabilities of these Public Enterprises can be gauged from the performance of selected Units shown in Annex IV. While it is true that some of them have yet to reach optimum capacity levels, most of them have shown marked acceleration in this process in recent years.
- 4.3 Employment.—Massive investments in these Public Enterprises have created large employment potentials. The employment by the Public Enterprises has risen over the years as follows:—

1960		
1965	***	 183,000
		 471,000
1970		 660,000
1974		
		 1,400,000
1975		 1,600,000
(provisional)		,,,,,,,,

The foregoing are figures of direct employment by these Enterprises. The incidental, social and economic activities resulting from operations of these Units have caused the creation of many more employment opportunities difficult of being accounted for here.

Another noteworthy feature related to employment in these Public Enterprises is the significant increase in wages of employees (chiefly workers and supervisors) over the years. The average annual emoluments per employee have risen in the last 10 years as follows:—

Average	annual emoluments per employee in Public Enterprises

2/255/41	Privoto	
1965	 	£ 218
1970		£ 387
1974	 	£ 443

4.4 Housing and Civic Amenities.—In setting up Public Enterprises the Government desires, inter-alia, that it should set an example as a model employer. Accordingly, these Enterprises render a major social service to their employees through the setting up of townships and provision of housing and allied facilities. Substantial amounts of Capital of these Public Enterprises are invested in the provision of these facilities. The total amount invested in township and residential facilities already exceeds £256 million, representing around 4.8% of the gross fixed assets of these Enterprises. Additionally, the recurring expenditure on maintenance of these facilities exceeds £52 million annually.

As a result of these efforts by the Public Enterprises, they have been able to provide residential accommodation for about 280,000 worker families, which is an aggregate coverage of a little over 20% of the personnel strength of these Enterprises. Of this, the percentage of coverage in Enterprises established in newly developed areas is, of course, very much higher.

4.5 Regional Development.—In selecting locations for establishment of new Public Enterprises, Government has insisted on examination of the possibilities of selecting sites in such a way that they may ultimately contribute to a balanced regional development all over the country. It is not that the concerned techno-economic factors are overlooked, although a slightly less suitable location from these considerations has, at times, been preferred if this could serve the larger objective of balanced regional development. Frequently, this has resulted in higher initial Capital Costs. It is a measure of the success of these Public Enterprises that they bear such burdens as their contribution to national development. Such an approach is normally not to be found in the case of the purely profit-oriented private sector.

V .- Corporate Structuring

- 5.1 All Public Enterprises producing goods and rendering related services have been established as Companies with limited liabilities under the provisions of the Indian Companies Act. In this respect, they are subject to the same provisions of the Law and its discipline as any other Company with limited liabilities in the private sector.
- 5.2 There are, of course, a few Public Enterprises which are treated somewhat differently. These include:—.
 - (i) Insurance Corporations.—Two Insurance Corporations have been established as statutory corporations and the third one as a Government Company;
 - (ii) Companies under Section 25 of the Indian Companies Act, 1956.—Under this Section of the Law, an Association may be registered as a Company with limited liability without the word "Limited" or "Private Limited" at the end of its name, if the Central Government is satisfied that,

- (i) the object of the association is to promote commerce, art, science, religion, charity or any other useful object;
- (ii) its profits or incomes will be applied in promoting its objects; and
- (iii) it will not pay any dividend to its members. Four Enterprises, namely, the National Research and Development Corporation, Central Social Welfare Board, the Indian Dairy Corporation and the Artificial Limbs Manufacturing Corporation of India, with a total investment of £4.5 million, come under this category.
- 5.3 To comply with the provisions of the Law, the equity shares of these Enterprises are held by Government in the name of the President of India and a required number of Government Officials.

In the few cases where there has been equity subscription by foreign parties, shares have also been issued in their names.

Government's equity investment in these Enterprises is controlled and administered by nominated Ministries of the Government of India. These Ministries are, by virtue of this position, also the administrative organs of Government responsible for the functioning and control of concerned Enterprises.

5.4 Each Company has its own Board of Directors, appointed by the Shareholders—the Central Government in these cases. Enterprises with foreign equity participation also provide for their due representation on the Board of Directors.

The composition of the Board of Directors include senior officials, from the administrative Ministry, the Ministry of Finance and such other Government officials whose association would be helpful to the functioning of the Company. In addition, experienced and eminent persons from Industry, Commerce and other walks of public life are also placed on the Board of Directors.

- 5.5 While in the earlier years, in most Companies only the Chief Executive was a whole time Director, this practice is gradually giving way to inclusion of whole-time, functional Directors also. This has become necessary particularly in the case of the very large Enterprises, to accelerate the processes of decision making and a more effective downward flow of Corporate policies.
- 5.6 In the earlier years, quite a few of these Enterprises had very senior Government officials, such as the Secretaries, on the Boards of Directors. In some cases, even Ministers served as Chairmen. However, these practices have long been discarded and as a general rule such persons do not now serve on the Boards of Directors. This ensures for them a much greater freedom for decision making at the highest levels.

Similarly, the erstwhile practice of the Chairman and a separate whole-time Managing Director is now being deliberately replaced by a whole-time Chairman cum Managing Director. This change has resulted in a number of important benefits to the Enterprise including more effective and closer liaison with Government at 5-A 31051

the very highest level of Company management, elimination of the possibilities of divergence of views on matters of higher policy between the part-time Chairman and whole-time Managing Director, and delegation of greater authority to the Chief Executive.

5.7 The appointments of whole-time Directors of these Enterprises including the Chief Executive, are made by Government for fixed terms of 3 to 5 years, with such periods being extended further at the discretion of Government.

As regards other Directors, the earlier practice of such Directors retiring at each Annual General Meeting has now been replaced by their appointments for a period of 3 years. This has made for a greater measure of continuity in the working of the Company Boards, while at the same time minimizing the amount of administrative effort on the part of the controlling Ministries.

5.8 It may also be mentioned here that while previously Government has reserved to itself not only the appointment of Directors but also General Managers and other senior officials with salaries beyond a particular level, these powers now rest in the Boards of Directors of these Enterprises. In other words, the Board of Directors determines the appropriate organizational pattern for its own Company, fixes salaries and remunerations and selects the personnel.

VI.-Financing of Enterprises

6.1 The bulk of the investments in these Public Enterprises, whether as equity or as loans has come from the Central Government. In a few Enterprises, State Governments, Indian private parties and/or foreign private parties also have relatively small investments. The magnitude of investments, which have been utilised for meeting capital expenditure for the establishment of new units and the expansion of existing ones, has grown as follow:—

		(£ Million)							
		1960)	1965		1970		1974	
Central Government Equity		391		966		1,616		2,714	
Equity by Other Indian Parties (St. Private)	ate and	3		6		9	••	15	
Equity by Foreign parties		2		5		12		13	
Loans and Deferred Credits		284		748		1,708		2,445	
Total		680		1,725		3,345		5,187	

6.2 The long-term loans sanctioned by the Central Government to these Enterprises are restricted to 15 years including the moratorium period. The repayment of principal ordinarily starts one year after commencement of production. Such loans carried a rate of interest of 8% per annum until mid 1974, after which the rate has been increased to $10\frac{1}{2}\%$ per annum. Penalties are leviable on delayed payments.

- 6.3 While on the subject of capital investments, mention needs to be made here of the novel departure made in 1975 in the case of a newly established Public Enterprise, Scooters India Limited. In this, 43% of its equity capital was offered to and has been subscribed by, the general public.
- 6.4 In so far as Working Capital requirements are concerned, these are required to be covered by each credit facilities from commercial banks. While previously Public Enterprises were required to seek such facilities only from the State Bank of India, they are now permitted to deal also with other nationalised Banks for this purpose. The Enterprises are advised to obtain their working capital requirements from such Banks on the security of their current assets. However, in certain cases guarantees have been furnished by the Central Government in favour of the Banks providing overdraft facilities.

In special cases, to meet the Working Capital requirements, short-term loans have been granted by the Central Government to some of these Enterprises. Normally, the duration of such Working Capital loans from the Central Government is 2 to 3 years, although in exceptional circumstances the period has been extended to 5 years. Repayment of such Working Capital loans commences from the first anniversary of the date of drawal of loans.

VII.—Establishment of an Enterprise

7.1 Since India has, from the beginning, taken recourse to central planning for integrated and balanced national development, the origins of these Public Enterprises are to be found in the objectives and targets of the National 5-year Plans of the country.

Having set the broad parameters of economic growth, these 5-year Plans endeavour to identify, in a preliminary way, the new investments to be made in identifiable Public Enterprises, whether to be established as new units or as expansion programmes of existing units.

7.2 It is the responsibility of concerned Ministries of the Central Government to appoint Consultants to develop details of a given Project. To encourage and accelerate the growth of Consultancy Services in India, Government have directed that, except in very special cases, the Prime Consultants shall be Indian Organisations.

To ensure further the development of these services to meet the growing needs of Government and the country, Consultancy Organizations have been established also in the Public Sector. The Companies specialise in different industrial fields such as Metallurgy, Petroleum, Fertilizers, Engineering Industries, etc. Through these and the many other private Consultancy Organizations, the fullest import of the prevailing operational environment is reflected in the technological solutions determined for the Projects, and the types of errors and omissions in earlier Projects avoided.

These Public Sector Consultancy Organizations have clearly shown the importance of indigenous efforts to ensure optimum and appropriate technological solutions.

- 7.3 Once the details of the Project have thus been worked out and accepted by the sponsoring Ministry, they are submitted for review by the Public Investments Board of Government. This Board, comprising of Secretaries of the Planning Commission, Ministry of Finance, Ministry of Industry and other concerned Ministries determines the eligibility and priority for investment in the scheme.
- 7.4 Once administrative and investment approvals have been accorded, it then becomes the responsibity of the nominated Ministry of the Government of India to form the Company and take steps for project implementation.

VIII.-Growth of Management

- 8.1 In the initial years after Independence, for obvious reasons, there was a paucity of managerial talent. At that time, therefore, recourse had to be taken to large-scale induction of Managers from various Administrative and Technical Branches of Government. With few exceptions, these personnel came to the Public Enterprises for limited periods of deputation and then returned to their parent Departments in Government.
- 8.2 It soon became apparent that this continuous movement of Managers at various levels was seriously affecting the growth of the concerned Enterprises. The known competence and capabilities of the selected personnel notwithstanding, the lack of continuity and absence of a sense of belonging and career development within the Enterprise, had their own adverse effects.

Be that as it may, it has to be said to the credit of these Managers inducted from Government into the totally alien industrial environment, that they valiantly strove to bridge the gap in availability of talent at the time. In fact, all things considered, they did an excellent job of getting some of the largest Public Enterprises established in the period 1955—65.

- 8.3 In the earlier years, the Public Enterprises did not seem to attract managers with experience from private industrial establishments. This was in part, due to the very wide disparities in remuneration offered by the Public Enterprises in which scales had been determined keeping in view other social considerations, and those obtaining in private industry which were fixed in an earlier period without any regard to the relationships between emoluments at highest and lowest levels. There was also a sense of insecurity arising out of doubts expressed in certain vocal and interested sections of society regarding the success of the Public Enterprises. As time went on the steady improvements in the performance of Public Enterprices, the greater measure of internal autonomy accorded to them and the creation of a new generation of young managers attracted by the challenge of nation building, has set in motion a very discernible trend amongst managers to join the Public Enterprises.
- 8.4 Recognising the importance of effective and efficient managerial cadres for Public Enterprises, Government have constantly been striving to induct the best available talent for these units. To ensure proper and unbiased selection for the

higher positions, Government has set up the Public Enterprises Selection Board Members of this Board are persons of high eminence and long experience drawn from Government and Industry.

- 8.5 Lower managerial, executive, supervisory and operative levels are the exclusive responsibility of these Enterprises themselves. External recruitment is generally on a national basis, except that in the case of operators, etc., preference is given to local people, to the extent possible.
- 8.6 Specific mention needs to be made here of the emphasis always placed on developing managerial cadres from within an Enterprise and to allow easy mobility between Pubic Enterprises. While there was little possibility for this in the earlier years, passage of time itself has helped these Enterprises to build up largely their own cadres for internal growth.
- 8.7 The position today is that the community of managerial personnel in these Public Enterprises is made up of about 50,000 managers, belonging to middle, below top and topmost levels of general and functional managers. To these cadres, over 4,000 managers are being added annually now. The strength of top and below top level managers is around 3,000 and to this class some 150 to 200 persons are being inducted every year.
- 8.8 One widely prevalent view in India was that there could possibly be no two different managerial cultures for the Public Enterprises and Private Sector Organzations since both are to be run equally efficiently yielding minimum output or service with minimal inputs. This view, however, overlooked a vital difference in the managerial culture needed by Public Enterprises and that required by the private sector.

In the private sector, the 'logic of profit' predominates and the manager's primary duty is to maximise profits and financial returns for the owners. At times, these goals have tended to distort the personal attitudes and psychology of the managers employed in such private enterprises. Their urge for job satisfaction, for effecting innovations in their fields of work, for widening their obligation-focus to serve the interests of society and country have tended to get supplanted and suppressed.

On the other hand, if the Public Enterprises are to fulfil truly their objectives, the managerial culture in those Enterprises has to have not only close relationship to the financial and other interests of the Enterprise itself, but must also take cognisance of the necessity to balance the interests and aspirations of various people connected with the enterprise, such as the workers, the suppliers of inputs, the expectant group of ancillary manufacturers, the consumers, etc., and, above all, to pay heed to national goals and interests. In other words managers in Public Enterprises have necessarily had to evolve a composite philosophy of work that would serve multiple objectives, social and national, in addition to the financial and economic ones.

It is because of this wide and recognisable disparity in the managerial culture for the two sectors of India's mixed economy, that Government has all along placed considerable emphasis on the growth of managerial talent in Public Enterprises from within. Considerable sums of money have been, and are being, expended by these Enterprises on locating suitable manager-material from within and to provide such persons with opportunities to accelerate their learning processes.

IX.—Personnel Development

- 9.1 It was recongised from the very beginning that if these Public Enterprises were to to be manned efficiently with Indian personnel and dependence on persons inducted from abroad was to be minimised, then these Public Enterprises would themselves have to institute massive training programmes.
- 9.2 Pursuant to this need, Government adopted a multi-pronged approach to the training of cadres, including:—
 - (i) Establishment of Technical Training Centres by Public Enterprises;
 - (ii) Training of Indian personnel in the works and offices of foreign technical collaborators as a part of the Collaboration arrangements, whenever entered into;
 - (iii) Induction of Instructors from abroad, for short periods, to train Indian personnel in the Plants;
 - (iv) Establishment of large number of Technical Education and Vocationa-Training Centres in the country.
- 9.3 This approach has enabled not only these Public Enterprises but also Industry as a whole to build up the pool of executives, supervisors and operators needed by Industry.

There are today in India-

- 138 Teaching Institutions with a total annual intake capacity of 27,000 students for graduate and post-graduate courses in various branches of Engineering, Technology and Management Sciences;
- 307 Teaching Institutions with a total annual intake capacity of 50,000 students for Diploma Courses in various branches of Engineering and Technology; and
- 357 Vocational Training Centres with a total annual intake capacity of 156,000 students for a whole variety of trades and skills.
- 9.4 As mentioned earlier, most Public Enterprises have established their own Technical Training Centres. The expenditure in running and maintaining these Training Centres, in the nature of an overhead, is borne by the Public Enterprises themselves and is, in fact, yet another contributor to national objectives.

X—Relationship between Government and Public Enterprises

- 10.1 Relationship between the Government and a Public Enterprise is fairly well defined. Government has, from the very beginning recognised that if these Public Enterprises are to operate efficiently and effectively, then a maximum degree of autonomy must be allowed to the latter. It will not do to try and run an Enterprise from the corridors of Government Secretariats.
- 10.2 Essentitally, Government's relationship with an Enterprise is largely similar to that of the Shareholders and a Company in the private sector. The primary functions retained by Government include:—
 - (i) Determination of the fields of activity for a given Enterprise;
 - (ii) Assigning to the Enterprise its Corporate role and functions;
 - (iii) Granting approvals to capital expenditures beyond certain limits;
 - (iv) Providing capital finances, when needed;
 - (v) Appointments to the Board of Directors;
 - (vi) Receiving the Annual Report, Dividends, etc., as the Shareholders' Representative.
- 10.3 Additionally, in view of the fact that the concerned Minister has to act as the spokeman on behalf of the Enterprise in Parliament, it is natural that the administering Ministry has to be kept fully and continuously posted of the performance and operations of these Enterprises. This is done through the Ministry receiving periodic performance reports from the Enterprise, through direct and constant liaison between the Minister and his Secretary on the one hand and the Chief Executive of the Enterprise on the other.
- 10.4 Criticism has frequently been voiced in interested circles that there is excessive interference by Government in the day-to-day working of these Public Enterprises. Such critics forget that asking for information is not synonymous with issuing of orders and that such information has to be sought by the concerned Ministry if the Minister is to represent effectively the Enterprise before Parliament.

Those in the know of things fully appreciate the fact that necessary autonomy has been accorded by Government to these Enterprises to organise their affairs and to conduct their allotted business.

- 10.5 Apart from the specific matters reserved to itself by Government, as mentioned in para. 10.2 above, all other powers relating to the functioning of an Enterprise vest in its Board of Directors.
- 10.6 The manner in which individual Enterprises advise their administering Ministries of their performance and operations differs according to circumstances. However, the essential features of such reporting remain, by an large, similar.

10.7 It is also true that from time to time, Government advises the Board of Directors of these Enterprises to endeavour to follow a particular policy, but this is done only in respect of matters which affect the Public Enterprises as a whole and not by singling out individual Enterprises. Such advice generally takes the form of Guide Lines or Model Rules, and it is left to the judgement of the Board of Directors to adopt the suggested course of practice, with or without adjustments.

This approach can be readily appreciated when one remembers that the ultimate owner of all these Enterprises being the same, very wide disparities in certain matters, particularly those relating to personnel and wage policies, superannuation benefits, discipline and code of employee conduct, etc., could result in serious operational difficulties for the Enterprises themselves.

XI-Accountability to Parliament

11.1 Public Enterprises, as instruments of public policy and being creations of Government, are clearly and ultimately accountable to Parliament. From the very beginning, therefore, the workings of these Public Enterprises have been closely scrutinized and commented upon by Parliament.

In the earlier years, examination of the workings of Central Government Public Enterprises devolved on the Public Accounts Committee and the Estimates Committee of Parliament. Later on, however, it was appreciated that these Committees, already overburdened with their functions relating to Government working and finances, could not devote all the time needed for comprehensively examining the working of the growing numbers of Public Enterprises.

11.2 It was, therefore, decided by Parliament towards the end of 1963 to setup a separate Committee of Parliament for matters relating to the Public Enterprises of the Central Government.

The Terms of Reference of the Committee on Public Undertakings are as follows:-

- (i) To examine the Reports and Accounts of Public Enterprises;
- (ii) To examine the Reports, if any, of the Comptroller and Auditor-General of India on the Public Enterprises;
- (iii) To examine, in the context of autonomy and the efficiency of the Public Enterprises, whether the affairs of the Public Enterprises are being managed in accordance with sound business principles and prudent commercial practices; and,
- (iv) To exercise such other functions in relation to Public Enterprises as may be allotted to it by the Speaker, from time to time.
- 11.3 At the beginning of each fiscal year the Committee selects for examination in depth such Enterprises and subjects as it deems fit.

Concerned Ministries and Enterprises are then asked to furnish data and information on lines prescribed by the committee. The committee also undertakes tours to make on-the-spot studies of the working of concerned Enterprises, when it holds informal discussions with plant managers and others.

Thereafter, the Secretary of the concerned Ministry and the Chief Executive of the Enterprise are called separately for formal discussions on various matters relating to the working of the Enterprise.

The report of the Committee is thereafter presented to Parliament for consideration.

- 11.4 Examination of the working of an Enterprise by the Committee of Parliament is essentially in the nature of an evaluation of the performance of the Enterprise, and recommendation on how its performance could be improved upon to enable it to discharge more effectively the role assigned to it
- 11.5 Apart from examining the working of individual Enterprises, the Committee of Parliament undertakes horizontal studies, affecting the Public Sector Enterprises, as a whole. For example, it has previously examined and reported on Foreign Collaborations in Public Enterprises, Financial Management, Public Relations and Publicity, Personnel Policies, etc. During 1973–74, the Committee studied the "Role and Achievements of Public Undertakings", which was a comprehensive review of the contribution of the Public Sector to the industrial development of the country.
- 11.6 Apart from the afore-mentioned review-in-depth of Public Enterprises by the Committee of Parliament, the Annual Report and Blance Sheet of each Enterprise is presented to Parliament followed by a debate thereon.

Furthermore, Government is required to Present annually to Parliament, a comprehensive and consolidated Report on the working of all Central Public Enterprises.

11.7 It is through these machanisms that Parliment exercises its control over the Public Enterprises. All debates and questions relating to the Public Enterprises are answered by concerned Ministers.

It has to be said to the credit of Parliament, Government and Enterprise Managements that this scrutiny by Parliament as a part of Enterprise accountability to it, has helped Enterprises immensely in improving their operations. Suggestions and recommendations emanating from Parliament have helped Enterprise Managements and concerned Ministries to better appreciate the aspirations and expectations of the nation, which these Enterprises serve.

XII.—Autonomy within the Enterprise

12.1 It will be clear from what has been said in the two previous Sections that a substantial degree of autonomy is enjoyed by these Public Enterprises.

Apart from the specific matters reserved by Government to itself, as mentioned in paragraph 10.2, all other matters relating to the functioning of an Enterprise fall within the competence and powers of the appointed Board of Directors.

12.2 While it is left to the Board of Directors to determine the extent to which powers need to be delegated to the Chief Executive and other managerial levels within the Enterprise, the following remain under the jurisdiction of the Board itself:—

- (i) Formulation of Corporate Policies and Rules of Business;
- (ii) Formulation of the Pricing Policy;
- (iii) Approval of Annual Capital and Operating Budgets;
- (iv) Personnel and Wage Policies;
- (v) Arranging required finances;
- (vi) Appointment of Company Auditors;
- (vii) Write-off of Losses beyond specific limits;
- (viii) Matters of Litigation and Adjudication;
- (ix) Sanctions for Posts for below-top-level and appointments thereto.

12.3 It has to be admitted that in the past, while the Boards of Directors, and in most cases, the Chief Executives of these Public Enterprises have enjoyed all the powers necessary for the discharge of their duties, there had not been adequate delegation of powers down the managerial line. The result was excessive centralisation of authority with consequential slowing down of decisions on the "shop floor".

Through Government insistence and a result of their own experiences, however this position is now being rapidly rectified. In most of the enterprises, adequate and effective powers have now been delegated to Managers at various levels. This 'has not only speeded up the decision-making processes, but what is of equal, if not greater, importance is that these lower level Managers have begun to feel their responsibilities and commitments to the Enterprise in greater measure.

XIII-Public and Private Sector Enterprises

13.1 So much is heard about conflict between the Public and Private Sectors in India that one can readily forgive those who have come to believe that these two "warring" factions work at cross purposes and to the detriment of the national economy. Nothing could be further from the truth. Such statements of conflict, even of the Public Sector stifling the growth of the Private Sector, invariably emanate from quarters inimical to the concept of a Public Sector, howsoever great its relevance to the Indian situation.

- 13.2 All this noise notwithstanding, the fact remains—and is there for any one to see—that these two Sectors have become equally essential parts of the Indian scene today. As envisaged long ago by the Founding Fathers of modern India, these two are not only complimentary but derive sustainance from each other.
- 13.3 A conscious policy of greater horizontal integration of production activities has been practiced by the Public Sector Enterprises for some years now. Not only do these Enterprises depend on Private Sector Industry for a whole variety of material and service inputs, but what is more, they directly participate in many large orders as partners. It is not the least uncommon to find a large Public or Private Enterprise having with it, as partners, Enterprises from both sectors in accomplishing tasks of magnitude, such as establishment of a Power Station, or Steel Plant or Mining Station or Port Development, etc.
- 13.4 A development of very great significance in a country where small-scale industry has become a major contributor to economic activity, is the role being played by these Public Enterprises in the development of ancillary and feeder industries in the country. By Government directive, all Public Enterprises are required, for some years now to encourage and assist actively in the setting up of industrial units to manufacture products or provide services of an ancillary nature, to the main Plants themselves. Industrial Estates established by Bherat Heavy Electricals Limited the main producers of Power Generation Equipment; by Hindustan Machine Tools Limited Largest manufacturer of an extremely wide range and variety of machine tools; by Scooter India Limited largest Scooter Producer in the country, are just a few examples of this contribution by the Public Enterprises to accelerating economic growth in and around their area of location.

Assistance provided by the Public Enterprises to the setting up of such ancillary and feeder industries — all in the private sector — have included assured off-take of products, required technical knowhow, training of personnel supply of raw materials and inputs, and in many cases even financial assistance.

- 13.5 Conversely, it is equally true that the Private Sector Enterprises depend on these Public Enterprises for a whole variety of material and service inputs needed by them. It would be difficult today to find an Engineering Establishment in the Private Sector which does not have machine tools made by Hindustan Machine Tools Limited, or electrical equipment from Bharat Heavy Electricals Limited, etc. Similarly, there would be rare cases of Process Plants in the Private Sector without some equipment from Bharat Heavy Plates and Vessels Limited or instrumentation from Instrumentation Limited, etc. Many a Plant in the private sector has been designed and engineered by Consultancy Organizations in the Public Sector.
- 13.6 Further evidence of the intermingling of the two Sectors is to be found in the composition of the Boards of Directors of Public Enterprises. Most of them have, as Directors, Industrialists of high standing from the private sector. Their knowledge and experience make valuable contributions to the proper development of these Public Enterprises.

13.7 Enterprises in both Sectors are thus working hand in hand in the task of nation building. It goes to the credit of Government that whatever else the charges levelled by its critics, it can never be said that Government has favoured the Public Enterprises at the cost of those in the Private Sector. It has allocated specific roles to each. It is true that in the nature of India's circumstances, the Public Sector will assume a commanding position in the economy, but this is not being done at the cost of the private sector.

XIV-The Bureau of Public Enterprises

14.1 An understanding of the working of Public Enterprises in India would be incomplete without reference to the important role played by the Bureau of Public Enterprises.

This Bureau, or BPE as it is popularly called, is a Division under the Ministry of Finance set up in the early 1960's for the following purposes:—

- (i) To act as an agency of Government to analyse and evaluate the performance of Public Enterprises under the Central Government;
- (ii) To act as the Technical and Financial Advisers to the concerned Ministries of Government on matters relating to these Public Enterprises;
- (iii) To act as an agency of Government for evolving norms of practice in various fields of common import to Public Enterprises as a whole;
- (iv) To act as advisers to the Public Enterprises themselves on technical, financial and managerial problems, whenever so needed.
- 14.2 An important task of the BPE is to keep under constant review, the periodic performance data and information furnished by the Public Enterprises to Government, and to advise both Government and the Enterprises on shortfalls and remedial measures, wherever necessary.

As mentioned earlier, the BPE prepares an annual report and review of the working of Public Enterprises as a whole for presentation to Parliament. This review not only examine the financial results but also other important aspects, such as those of capacity utilisation, materials management, welfare activities, personnel policies, labour relations, etc.

14.3 Over the years, the BPE has issued Guide Lines to Enterprise Management on a variety of matters including Wage Policies, Superannuation Benefits, Housing Facilities, Norms of Construction, Conditions of Contract, Materials Management, etc. Since these generalised Guide Lines reflect the thinking of Government on matters of Policy, they have been valuable aids to Enterprise Managements in formulating their own rules and procedures.

It has recently issued a Compendium of all such Guide Lines and Instructions to Public Enterprises which elaborate "Government Policy for the Management of Public Enterprises".

- 14.4 As further services to these Enterprises, the BPE acts as Secretaries to the Public Enterprises Selection Board responsible for the Selection of whole-time Directors for Public Enterprises. It also maintains panels of professionals in various fields desirous of joining a Public Enterprise. The Enterprises find this a most fruitful source of recruitment to various levels within their Organizations.
- 14.5 On a variety of matters of high policy, Enterprise Managements keenly look forward to advice from the BPE specialists, who, with a deep insight into the working of Public Enterprises as a whole and of Government's policy approaches, are in a position to look at a given problem in its totality.

The Bureau has thus become an essential part of the growth of public Enterprises in India.

XV-Problems and Experiences

15.1 No doubt, today the Public Sector in India can rightly claim to have come of age. It has begun to make substantial financial contributions, to produce a bewildering variety of products, to have created new economic growth centres, to have established an appropriate style of management, to have ensured the welfare of its employees and many other such matters contributing to national development.

But all this has not been without many attendant problems and difficulties. A review of some of them would help to better appreciate even the failures encountered en route, the delays caused and even the injustice of some of the criticisms frequently levelled against the Indian Public Sector.

15.2 A frequent, and largely valid, charge against these Enterprises has been that in their establishment there have been substantial overrungs of cost and time. Factually, this cannot be denied. In part, this was caused by inexperienced and less than effective Project Management in the earlier years. While, no doubt, this was partially due to the inadequate performance of the assigned Managers, it has, at the same time, to be said in their defence that they were called upon to tackle problems of a nature and magnitude not previously encountered by them.

But of even greater significance in this regard was the very process of national planning as practiced in the earlier years. Allocations for specific Enterprises in the 5-year Development Plans were frequently based not on detailed techno-economic investigations but on macro-level generalised estimates, both of costs and of time. When detailed investigations were subsequently carried out and more realistic estimates formulated, these turned out to be at considerable variance from the original allocations in the Development Plan. The damage had, however, been done, since in the popular mind the Plan allocations of cost and time became the basic yardsticks for comparison.

Matters were further aggravated by sudden and unforeseen shortages in the availability of critical inputs, caused frequently by inadequate material resource budgeting in the Plan exercises.

These, however, are now matters of the past. For example, in the current Fifth 5-Year Plan, most of the major Projects identified for development have been allocated resources on the basis of detailed techno-economic investigations carried out in advance. The benefits of such advance action is already manifesting itself in a closer approximation of actuals to estimates.

15.3 It is also an accepted fact that many of these Enterprises have taken much longer to get into their full production strides than envisaged. In part, this was the result of incorrect original estimates made largely on the basis of experiences in the advanced countries of the world and without an adequate appreciation of the obtaining operational environment of the region where such large Enterprises—generally the first of their kind—were being established.

Problems were compounded by the levels of managerial competence not matching up to the requirements of these gigantic Projects.

As time went on and more experience was gained and levels of competence amongst managers grew, not only were estimates made more realistically, but actual performance began to approximate these estimates.

There is in this experience a lesson to be learnt. While experiences and practices elsewhere can serve as a useful guide, if these are not adjusted to suit the local environment, difficulties are bound to be encountered.

15.4 In retrospect today, one can readily identify Enterprises which were initially provided with less than appropriate technologies, plant design solutions and equipment. Many of them were saddled with equipment far in excess of needs, while others found themselves weefully short of essentialls.

There were two main contributors to these difficulties. Firstly, the Project Designers—generally from abroad in those earlier years—while highly qualified and experienced, were just not familiar with the obtaining Indian circumstances. At times, they tended to assume productivity levels far below those actually achievable, resulting in excess provisions of plant and machinery. In other cases, they assumed ready availability of non-existent facilities from elsewhere, resulting in Plants finding themselves desperately short in critical areas.

It was not long before Government recognised the critical importance of intimate association of Indian Engineers, fully conversant with Indian circumstances, with the vital processes of Plant Design and Engineering. Thus was born the impetus to the growth of Consultancy Services in the Country. In the last two decades, apart from a large number of such organizations having been developed in the Private Sector, Government itself has established Consultancy Organizations specialising

in the fields where major State investments are made, such as Steel and Metallurgical Industries, Petroleum and Petrochemicals, Fertilisers and Heavy Chemicals, Heavy Engineering, etc.

15.5 Another contributor to acceptance of less than appropriate technologies has been the financial circumstances of the Country at different points of time.

In the earlier years of development, when most of the capital plant and machinery had to be imported, establishment of the Public Enterprises of the time depended largely on the sources of external funding. India has been fortunate in securing such assistance from so many friendly countries of the advanced world. However, such financial assistance also had its attendant restraints on sources of technology choice, etc. In such circumstances, the country sometimes faced the choice of no technology or a somewhat less than appropriate technology. Quite rightly, it chose the latter.

While, no doubt, this has had its own effects on proper production build-up, costs, etc., it has also had a beneficial-though wholly unforeseen—effect. Faced with the problem of having to made do with a technology not wholly appropriate to efficient operation, Indian scientists and engineers have had to labour hard to adjust and adapt these technologies to the circumstances. In itself, this has been a single major contributor to an acceleration in the pace of R & D activities in the country. Indirectly, therefore, this difficulty has helped many of these Enterprises to develop indigenous technologies and fulfil one of their objectives.

15.6 Mention has been made earlier in this Paper of the paucity of industrial managers in the earlier years and the consequent large-scale induction of permanent Civil Servants of Government to assume the duties of Plant Managers. While they strove hard and valiantly to match up to the tasks assigned to them, it has to be admitted that in many respects, lack of experience and having to work in a totally alien environment, their performance frequently fell short of optimum. This had its own inevitable and deliterious effect on the growth and performances of the Enterprises placed under their charge.

Matters were further aggravated by the fact that having been assigned to the Enterprises for limited periods of time, they understandably found it difficult to identify themselves fully with the fortunes of their respective Enterprises.

This problem also is now a thing of the past. Not only have managerial cadres been developed within the Public Enterprises—through meticulous and painstaking effort over these long years—but with the expansion in industrial activity all over the country, many other sources are now open to these Public Enterprises to draw their required managerial talents from.

15.7 Till not very long ago, Enterprise Managements devoted far greater attention to production with inadequate attention to costs. Severe financial stringencies and Government's decision that these Enterprises must look to normal Banking

sources for their Working Capital requirements, quickly brought Enterprise Managements face to face with the problem of how best to manage their finances. A major sufferer of lack of adequate financial control was the inventory held by an Enterprise. Stocks were frequently built up without due regard to their effect on costs, merely on the plea of being cautious and to avoid situations of total run-out.

By proddings from Government and their own realisations, Managements began to devote serious attention to Inventory Control. The results of these efforts are now obvious. As against an inventory averaging 7 months of operating/production costs in 1968, this came down to 4.4 months in 1974 for all Manufacturing Enterprises taken as a whole. There is still room for improvement, and left it be said to the credit of these same managements that they are now striving ever harder to achieve the optimum.

15.8 One of the most difficult and persistent problem areas has been low capacity utilisation by many of these Enterprises. One reason, no doubt has been faulty production planning by Plant Authorities. But an equally significant—though not readily appreciated—reason is the direct link between the types of products manufactured by these Enterprises and the tempo of economic growth in the country. Severe drought conditions for a number of years seriously affected the buying power of the farmer, which in turn affected the off-take of fertilisers. Similarly, a slower than anticipated growth in market demands for a whole variety of manufactured products, had its cumulative effect on the off-take for capital machinery.

Here again, conscious efforts to improve capacity utilisation through better internal production planning, more aggressive marketing and a certain amount of diversification in the erstwhile production programmes, have already resulted in very significant gains. A recent review by the Bureau of Public Enterprises has shown that 56% of the manufacturing units are now operating in excess of 75% capacity, 27% are in the range of 50-75% and only 17% are still below the 50% level.

15.9 It is also an accepted fact that in some cases, the capacities installed were far in excess of foreseeable needs. These were the result of excessive optimism and inadequate appreciation of the problems of production build-up in such Complex Enterprises. In a way, this is a part of the price paid for gaining experience. Much more painstaking and realistic forecasts are now enabling appropriate sizing of plants and their product-mix.

15.10 As explained earlier, a substantial proportion of Enterprise Managers in the beginning were inducted from various departments of Government. Being wholly familiar with Government Rules and Procedures, they introduced these same for the working of their Enterprises. These Rules and Procedures, quite unsuited to commercial operations, had a most serious effect on efficient Plant operation.

Thanks to constant advice from the Bureau of Public Enterprises, pressures from Government and their own experiences, these Enterprises have now evolved their own sets of Rules and Procedures to suit their own specific circumstances. This has been most prominent in regard to rules of financial control where now they are more in tune with ultimate operational benefits, greater decentralization of authority and the requisite flexibility to suit market circumstances.

15.11 Even in personnel policies, be they wages and salaries, procedures of recruitment, leave and other benefits, these Enterprises tended, in the earlier years, to adopt wholesale the Government rules and practices. Managements soon realised that if they were to attract the best talents in the country and to create an atmosphere in which an employee would have a sense of belonging and career development major changes in these rules and practices were essential.

15.12 These are but a few of the many problems which these Enterprises have encountered on the road to development. They have undoubtedly caused set-backs, some avoidable but mostly unavoidable. They have provided substantial gril to the mills of criticism. But the steadfast commitment of Government and Enterprise Managers to the very concept of Public Enterprises and their critical role in national development, has helped them climb over the hump. This is to say that all problems have been solved, though it can be confidently claimed that major factors relating planning, technical and financial management, etc., have been carefully looked into and practices established in tune with needs.

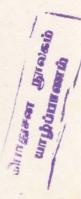
XVI-Future Prospects

16.1 The story of the Indian Public Enterprises would not be complete without some mention of the anticipations of its future growth and some of the new innovastions recently introduced, the results of which have yet to be seen.

The Fifth Five-Year Development Plan, due to end in fiscal 1978 envisages a total development outlay of £ 47,360 million. Of this a little over £ 3,500 million is planned for investment in Public Enterprises of the Central Government. This is nearly 60% of the total investment so far made in all such Enterprises since independence.

16.2 Apart from this massive investment and resultant increases in physical capacities set for Public Enterprises, a variety of qualitative and organizational aspects of their operations are slated for adjustments to suit the new circumstances.

A beginning has been made with Scooters India Limited for direct financial participation of the people of India in the establishment of new Public Enterprises. Results of this experiment are being keenly watched and would be extended as experience is gained. Not only would this reduce the burden on State finances for new ventures, but what is of far greater importance is that it shall cause a deeper involvement of the people themselves in the Working of Public Enterprises, which have such a critical role to play in the economic advancement of the country.



16.3 Trade Unionism has been allowed to be freely practised in these Public Enterprises. Recognised labour unions have collectively bargained with Enterprise Managements on matters of wages, welfare, etc. Furthermore, most of these Enterprises have functioning shop floor Staff Councils, where Management and Workers discuss problems of working conditions, etc.

It is however felt now that only through greater involvement of labour in the actual processes of management, would it become possible to secure a greater degree of commitment to the well-being of the Enterprise. This is intended to be achieved through setting up of Joint Management Worker Councils at the highest levels. These Councils would be required to examine and advise higher Management on operational matters, such as those of production programmes and targets, productivity norms, adjustments in work procedures and practices, operational policies and rules, financial operations, staff welfare etc., Though intended to be recommendatory in nature, the views of these Joint Councils shall be given the highest consideration by the Board of Directors of an Enterprise. These Joint Councils are now in the process of being set up in these Enterprises and their working shall be watched with interest.

In the ultimate, it is the intention to bring about more direct participation of labour in management by appointing representatives of labour on the Board of Directors. A small beginning has been made in this regard in one or two Companies. However, it is much too early to comment on the benefits of this approach.

16.4. Over the years, the matrix of the Public Enterprises has grown phenomenally. A number of Units engaged in similar and allied activities have come into existence. Being in the same or allied business, these Enterprises cannot afford to go their own independent ways, without due regard to operations of sister Enterprises. A far greater measure of *inter-se* co-ordination between allied Enterprises has, therefore, become necessary. Furthermore, with operational Units established in various States of the Indian Union—each enjoying a substantial measure of functional autonomy—these multi-unit Enterprises face new issues of managerial policy vis-a-vis State authorities.

A start has, therefore, been made to bring similar and allied Enterprises and Units into the fold of a Single Holding Company for them. The first in this field was the Steel Authority of India Limited, which has as its subsidiaries, four steel plants, a coking coal company, a company mining iron ore, a consultancy company, a construction company and an international marketing company. As the Holding Company, it is required to formulate general policies of personnel, materials and inventory control marketing, finance, welfare and industrial relations. It is anticipated that this will bring about a greater measure of commonality of approach within the industry, ensure a uniform approach to State—Enterprise relationships and minimise the labours of concerned Ministries of Government.

16.5. Hitherto, plans of these Public Enterprises in effect flowed downwards from the overall National Plans. And yet, at times, the growth and healthy development of an individual Enterprise may not necessarily coincide with the overall national projections. For example, for the healthy growth of the Enterprise, it may be necessary for it to expand to certain optimum levels but which would otherwise be in excess of capacities contemplated in the National Plan.

Realising this dichotomy in the situation, the Bureau of Public Enterprises has suggested to the Public Enterprises that they now formulate their own Company wise Corporate Plans. The Corporate Plans, while taking into consideration the parameters of the National Plan, would also find solutions for the specific problems of individual Enterprises. For example, if an Enterprise finds it necessary to develop capacities larger than necessitated by the National Plan, the evident solution in the Corporate plan would be to find international markets for the surplus production, the export of which would itself generate foreign exchange and meet another equally important national goal.

Several Public Enterprises are now engaged in the preparation of their own Corporate Plans. Not only would such long-term Corporate Plans help Enterprise Managements themselves, but are expected to influence materially the national thinking. Thus, instead of Plans flowing downward as hitherto, a process has been set in motion whereby these Plans shall actually flow upwards from the operating centres. This would be a major development in the whole concept of participation of these Enterprises in the Process of national economic advancement.

XVII-Summing Up

17.1 Three decade of independence in the life of a nation of the size of India with its myriad and complex problems, is too short a period to pass judgement on the success or failure of a complex concept such as the Indian Public Sector.

Critics of the concept have tended to highlight the failures and shortcomings and have avoided mention of the successes.

The performance of the Indian Public Enterprises has been a mixed bag. But looked at in the context of the formidable challenges and problems of the time, perennial shortages of a variety of essential inputs, unforeseen natural calamities, serious imbalances in foreign trade, etc., the wonder is not that failures and slippages have taken place, but that they have been so contained.

Votaries of free enterprise and the exclusive right of the private sector in the field of industrial development forget that the problems of stark poverty, serious economic inequalities amongst various sections of the people and imbalances in economic prosperity of different regions of the country, in themselves point to an inescapable assumption of certain development responsibilities by the State.

While offering no apologies for avoidable failures and shortcomings, one would be less than fair if one did not give credit to those who conceived the Indian Public Enterprises in their size and diversity and those-their own inadequate experiences notwithstanding who have shouldered the burden of setting them up and making them operational.

The performance of these Public Enterprises in the last 3 years or so is clear evidence of their having climbed the hump, learnt from their mistakes and to be now in a position to make increasingly more meaningful contributions to national progress.

One can do no better than to sum it all up in the words of India's former Prime Minister, who declared that, "the Public Sector occupies a pivotal role in our economic strategy. From the beginning, it has been recognised that the Public Sector would necessarily have to venture into the difficult and capital intensive fields of basic industry which the Private Sector had shunned for long. This has been done boldly and sometimes in the teeth of opposition. I think, we can say with justifiable pride that the sinews of our strength though it may be modest by the standards of the advanced countries, lie largely in our Public Enterprises...."

INDUSTRIAL POLICY RESOLUTION

New Delhi, 30th April, 1956

No. 91/CF/48—The Government of India set out in their Resolution dated 6th April, 1948, the policy which they proposed to pursue in the industrial field. The Resolution emphasised the importance to the ceonomy of securing a continuous increase in production and its equitable distribution, and pointed out that the State must play a progressively active role in the development of industries. It laid down that besides arms and ammunition, atomic energy and railway transport, which would be monopoly of the Central Government, the State would be exclusively responsible for the establishment of new undertakings in six basic industries—except where, in the national interest, the State itself found it necessary to secure the co-operation of private enterprise. The rest of the industrial field was left open to private enterprise though it was made clear that the State would also progressively participate in this field.

- 2. Eight years have passed since this declaration on industrial policy. These eight years have witnessed many important changes and developments in India. The Constitution of India has been enacted, guaranteeing certain Fundamental Rights and enunciating Directive Principles of State Policy. Planning has proceeded on an organised basis, and the first Five-Year Plan has recently been completed. Parliament has accepted the socialist pattern of society as the objective of social and economic policy. These important developments necessitate a fresh statement of industrial policy, more particularly as the Second Five-Year Plan will soon be placed before the country. This policy must be governed by the principles laid down in the Constitution, the objective of socialism, and the experience gained during these years.
- 3. The Constitution of India, in its preamble, has declared that it aims at securing for all its citizens:
 - "JUSTICE, social, economic and political;
 LIBERTY OF THOUGHT, expression, belief, faith and workshop;
 EQUALITY of Status and of opportunity;
 and to promote among them all;
 FRATERNITY assuring the dignity of the individual and the unity of the Nation".

In its Directive Principles of State Policy, it is stated that:

"The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life".

Further that:

"The State shall, in particular, direct its policy towards securing-

- (a) that the citizens, men and women equally, have the right to an adequate means of livelihood;
- (b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;
- (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment;
- (d) that there is equal pay for equal work for both men and women;
- (e) that the health and strength of workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter vocations unsuited to their age or strength;
- (f) that childhood and youth are protected against exploitation and against moral and material abandonment".
- 4. These basic and general principles were given a more precise direction when Parliament accepted in December 1954, the socialist pattern of society as the objective of social and economic policy. Industrial policy, as other policies, must therefore, be governed by these principles and directions.
- 5. In order to realise this objective, it is essential to accelerate the rate of economic growth and to speed up industrialisation and, in particular, to develop heavy industries and machine making industries, to expand the public sector, and to build up a large and growing co-operative sector. These provide the economic foundations for increasing opportunities for gainful employment and improving living standards and working conditions for the mass of the people. Equally, it is urgent, to reduce disparaties in income and wealth which exist today, to prevent private monopolies and the concentration of economic power in different fields in the hands of small numbers of individuals. Accordingly, the State will progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities. It will also undertake State trading on an increasing scale. At the same time, as an agency for planned national development, in the context of the country's expanding economy, the private sector will have the opportunity to develop and expand. The principle of co-operation should be applied wherever possible and a steadily increasing portion of the activities of the private sector developed along co-operative lines;

- The adoption of the socialist pattern of society as the national objective, at well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances, would provide, have also to be in the public sector. The State has, therefore, to assume direct responsibility for the future development of industries over a wider area. Nevertheless, there are limited factors which make it necessary at this stage for the State to define the field in which it will undertake sole responsibility for further development, and to make a selection of industries in the development of which it will play a dominant role. After considering all aspects of the problem, in consultation with the Planning Commission, the Government of India have decided to classify industries into three categories, having regard to the part which the State would play in each of them. These categories will inevitably overlap to son e extent and too great a rigidity might defeat the purpose in view. But the basic principles and objectives have always to be kept in view and the general directions hereafter referred to followed. It should also be remembered that it is always open to the State to undertake any type of industrial production.
- 7. In the first category will be industries the future development of which will be the exclusive responsibility of the State. The second category will consist of industries, which will be progressively State-owned and in which the State will therefore generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State. The third category will include all the remaining industries, and their future development will, in general, be left to the initiative and enterprise of the private sector.
- 8. Industries in the first category have been listed in Schedule A of this Resolution. All new units in these industries, save where establishment in the private sector has already been approved, will be set up only by the State. This does not preclude the expansion of the existing privately owned units, or the possibility of the State securing the co-operation of private enterprise in the establishment of new units when the national interests so require. Railways and air transport, arms and ammunition and atomic energy will, however, be developed as Central Government monopolies. Whenever co-operation with private enterprise is necessary, the State will ensure either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertaking.

- 9. Industries in the second category will be those listed in Schedule B. With a view to accelerating their future development, the State will increasingly establish new undertakings in these industries. At the same time, private enterprise will also have the opportunity to develop in this field, either on its own or with State participation.
- 10. All the remaining industries will fall in the third category, and it is expected that their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the State to start any industry even in this category. It will be the policy of the State to facilitate and encourage the development of these industries in the private sector, in accordance with the programmes formulated in successive Five-Year Plans, by ensuring the development of transport, power and other services, and by appropriate fiscal and other measures. The State will continue to foster institutions to provide financial aid to these industries, and special assistance will be given to enterprises organised on co-operative lines for industrial and agricultural purposes. In suitable cases, the State may also grant financial assistance to the private sector. Such assistance, especially when the amount involved is substantial, will preferably be in the form of participation in equity capital, though it may also be in part, in the form of debenture capital.
- 11. Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the State and will be subject to control and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Government of India, however, recognise that it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan When there exist in the same industry both privately and publicly owned units, it would continue to be the policy of the State to give fair and non-discriminatory treatment to both of them.
- 12. The division of industries into separate categories does not imply that they are being placed in water-tight compartments. Inevitably, there will not only be an area of overlapping but also a great deal of dovetailing between industries in the private and the public sectors. It will be open to the State to start any industry not included in Schedule A and Schedule B when the needs of planning so require or there are other important reasons for it. In appropriate cases, privately owned units may be permitted to produce an item falling within Schedule A for meeting their own requirements or as by-products. There will be ordinarily no bar to small privately owned units undertaking production, such as the making of launches and other light-craft generation for power for local needs and small-scale mining. Further, heavy industries in the public sector may obtain some of their requirements of lighter components from the private sector, while the private sector in turn would rely for many of its needs on the public sector. The same principle would apply with even greater force to the relationship between large-scale and small industries.

- 13. The Government of India would, in this context, stress the role or cottage and village and small-scale industries in the development of the national economy. In relation to some of the problems that need urgent solutions, they offer some distinct advantages. They provide immediate large-scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.
- 14. The State has been following a policy of supporting cottage and village and small-scale industries by restricting the volume of production in the large-scale sector, by differential taxation, or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the State Policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large-scale industry. The State will, therefore, concentrate on measures designed to improve the competitive strength of the smallscale producer. For this it is essential that the technique of production should be constantly improved and modernised, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment. Lack of technical and financial assistance, of suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small-scale producers. A start has been made with the establishment of industrial estates and rural community workshops to make good these deficiencies
 The extension of rural electrification and the availability of power at prices which the workers can afford will also be of considerable help. Many of the activities relating to small-scale production will be greatly helped by the organisation of industrial co-operatives. Such co-operatives should be encouraged in every way and the State should give constant attention to the development of cottage and village and small-scale industry.
- 15. In order that industrialisation may benefit the economy of the country as a whole, it is important that disparaties in levels of development between different regions should be progressively reduced. The lack of industries in different parts of the country is very often determined by factors such as the availability of the necessary raw materials or other natural resources. A concentration of industries in certain areas has also been due to the ready availability of power, water supply and transport facilities which have been developed there. It is one of the aims of national planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment, provided the location is otherwise suitable. Only by securing a balanced and co-ordinated development of the industrial and the agricultural economy in each region, can the entire country attain higher standards of living.
- 16. This programme of industrial development will make large demands on the country's resources of technical and managerial personnel. To meet these rapidly growing needs for the expansion of the public sector and for the development of

village and small-scale industries, proper managerial and technical cadres in the public services are being established. Steps are also being taken to meet shortage at supervisory levels, to organise apprenticeship schemes of training on a large-scale both in public and in private enterprises, and to extend training facilities in business management in universities and other institutions.

- 17. It is necessary that proper amenities and incentives should be provided for all those engaged in industry. The living and working conditions of workers should be improved and their standards of efficiency raised. The maintenance of industrial peace is one of the prime requisites of industrial progress. In a socialist democracy labour is a partner in the common task of development and should participate in it with enthusiasm. Some laws governing industrial relations have been enacted and a broad common approach has developed with the growing recognition of the obligations of both management and labour. There should be joint consultation and workers and technicians should, wherever possible, be associated progressively in management. Enterprises in the public sector have to set an example in this respect.
- 18. With the growing participation of the State industry and trade, the manner in which these activities should be conducted and managed assumes considerable importance. Speedy decisions and a willingness to assume responsibility are essential if these enterprises are to succeed. For this, wherever possible, there should be decentralisation of authority and their management should be along business lines. It is to be expected that public enterprises will augment the revenues of the State and provide resources for further development in fresh fields. But such enterprises may sometimes incur losses. Public enterprises have to be judged by their total results and in their working they should have the largest possible measure of freedom.
- 19. The Industrial Policy Resolution of 1948 dealt with a number of other subjects which have since been covered by suitable legislation or by authoritative statements of policy. The division of responsibility between the Central Government and the State Governments in regard to industries has been set out in the Industries (Development and Regulation) Act. The Prime Minister, in his statement in Parliament on 6th April, 1949, has enunciated the policy of the State in regard to foreign capital. It is, therefore, not necessary to deal with these subjects in this resolution.
- 20. The Government of India trust that this re-statement of their Industrial Policy will receive the support of all sections of the people and promote the rapid industrialisation of the country.

SCHEDULE A

- 1. Arms and ammunition and allied items of defence equipment.
- 2. Atomic energy.
- 3. Iron and Steel.
- 4. Heavy castings and forgings of iron and steel.
- Heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government.
- 6. Heavy electrical plant including large hydraulic and steam turbines.
- 7. Coal and lignite.
- 8. Mineral oil.
- 9. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.
- 10. Mining and processing copper, lead, zinc, tin, molybdenum and wolfssram.
- Minerals specified in the Schedule to Atomic Energy (Control of Production and Use) Order, 1953.
- 12. Aircraft.
- 13. Air transport.
- 14. Railway transport.
- 15. Shipbuilding.
- Telephones and telephone cables, telegraph and wireless apparatus (excluding radio receiving sets).
- 17. Generation and distribution of electricity.

SCHEDULE B

- All other minerals except "minor minerals" as defined in Section 3 of the Minerals Concession Rules, 1949.
- 2. Aluminium and other non-ferrous metals not included in Schedule A.
- 3. Machine tools.
- 4. Ferro-alloys and tool steels.
- Basic and intermediate products required by chemical industries such as the manufacture of drugs, dye-stuffs and plastics.
- 6. Antibiotics and other essential drugs.
- 7. Fertilisers.
- 8. Synthetic rubber.
- 9. Carbonisation of coal.
- 10. Chemical pulp.
- 11. Road transport.
- 12. Sea transport.

CATALOGUE OF CENTRAL GOVERNMENT PUBLIC ENTERPRISES IN 1975

	Activities		Production of Kerosene, Aromatics, Polyester Fibre & Films, etc.	Development of know-how for Electronic Equiptonent	Iding	Production of Newsprint, rulp & raper	ment Frequency of Cluck Analys	Fulp & Faper Froduction	Owing and operating proposed Fuel Oil based Ferti- lizer Plants in Punjab, Haryana and U.P.	Prodution of Steel		Owing & Operating the 4th Integrated Steel Plant in Public Sector.	Mgmt, of Bhilai, Rourkela & Durgapur Steel Plants Coal Washeries.	Holding Co. for Steel & Associated input industries to plan, promote & organise an integrated & efficient devel. co-ordinate activities of its subsidiaries.	hing, managing & operating Aluminium	Management of nationalised non-coking Coal Mines Extraction of Gold. Production of fire-clay bricks & Mortar. Formulation & Recommendation to Govt. of a national policy for conservation, development & utilisasation of coal reserves.
			Product	Developmen iptment	Ship Building	Froduct	Development	Fulp &	Owing s lizer	Produti		Owing	Mgmt, Coal	Holding plan, deve	Establishing, Projects.	Manage Extrac Produc Formu nal I satio
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West and the second	Name of Firm 2	A. Undertakings under Construction	Bongaigaon Refinery & Petro	Central Electronics Ltd.	Cochin Shipyard Ltd	Hindustan Paper Corpn. Ltd.	Mishra Dhatu Nigam (P) Ltd.	Nagaland Pulp and Paper Co.	Ltd. National Fertilizer Ltd.	Salem Steel Ltd.	B. Running Enterprises	(A) BASIC MATERIALS 9 Bokaro Steel Ltd	Hindustan Steel Ltd.	Steel Authority of India Ltd	(i) Minerals & Metals 12 Bharst Aluminium Co. Ltd	Bharat Coking Coal Ltd Energy-Goal Bharat Gold Mines Ltd Steel & Mine Bharat Refractories Ltd do. Coal Mines Authority of India Energy-Coal
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Devel. of Copper & Lead Projects. To develop potential for zing moduction	To treat Monazite Sand to produce rare earth	production. Production of Coal including washed coal.	Lignite mining to generate power, produce Urea &	Carbonised brigettes. Execution of various Iron Ore Projects.	Mining of Pyrites & Phosphates deposits, Exploratory	Produce & Provide Uranium requirements of the	country.	Refining of Grude oil.	Managing overseas oeprations of Oil and Natural Gas	Commission (ONGC) Production of High Speed Diesel oil, Aviation Turbo Fuel. Lubritating oil & Transforman oil at	Oil Refining & its Marketing. Marketing of Petroleum Products.	Production of basic Chemical additives for Petroleum	industries. Petroleum Refining. Exploration & Exploitation of hydrocarbon in various sedimentary basins of the country.		Coment Manufacture. Production of Fertilizers & Chemicals of various qualities.	Production of Fetilizers	Mfr. of Pencillin & Streptomycin & other Pharma-	centical Products Mfr. of DDT & BHC. Mfr. of Salt
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Steel & Mines	Atomic Energy	Energy-Coal	do	Steel & Mines	Fertiliser & Ch.	Atomic Energy		Min. of Pet. & Ch. Dept. of Petroleum	Dept. of Petroleum	do	do.	do	do.		Min. of Industry Min. of Petro & Chemicals (Fertilizer & Checoals)	Min. of Petro & Chemicals (Fertilizer & Chemicals)	do	do. Dept. of Ind. Devel
Hindustan Copper Ltd	Indian Rare Earths Ltd	National Coal Development Corporation Ltd.	Neyveli Lignite Corpn. Ltd	National Min. Devel. Corpn. Ltd.	Pyrites, Phosphate & Chemicals Ltd.	Uranium Corpn. of India Ltd.	leum	Cochin Refineries Ltd.	Hydro Carbons India Pvt. Ltd.	Hindustan Petroleum Corpn.	Indian Oil Corpn, Ltd. Indo-Burmah Petroleum Corpn Ltd.	Lubrizol India Ltd.	Madras Refineries Ltd. Oil & Natural Gas Commission	iii) Chemicals & Pharmaceuticals	Coment Corpn. of India Ltd Fertilizer & Chemicals (T) Ltd.	Fertilizer Corporation of India Ltd.	Hindustan Antibiotics Ltd.	Hindustan Insecticides Ltd Hindustan Salts Ltd.
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17	19	20	21	22	23	24	(ii) Petroleum	26	26	27	29	30	31	(III)	33	30	88	37

Activities	9	Mfr. of Organio Ch. & Intermediates required for drugs, dyestuffs & plastic industires	Production of Synthetic drugs, antibiotics, etc.	Devel. of Petrochemical projects based on refineries feed stock	Manufacture of Ammonia and Urea Mfr. of Salt			Manufacture of Heavy Electrical Equipment.	Mfr. of custom built equipment for Fertilizer, Petro- leum, Petrochemicals, & Process Industries	Fabricators & Erection Contractors	Devel. & Mfr. of Heavy Capital Equipment. Mfr. of Chanes, wasons, etc., diversified to take up	Mf. of Minney Machinery Mf. of Structures & Eonf. for nower, steel chemical.	process industries, communication towers, etc.	Production of Sluice Gates and Hoists for Irrigation Projects, Cement & Sugar Machinery, etc.		histicated Defence I	Mir. of rumps, Compressors, cas cymiders and Seamless Tubular Bodies	Mfr. of Switchgear & Elec. Motors, etc. Davelo mfr and supply of electronic systems, etc.	Mfr. of Telecom Cables required by P. & T. Dept. Mfr. of high precision m/c Tools, Tractors, Wrist Watches, etc.	Mfr. of Teleprinters and ancillary Equipments	Mfr. of Coaxial Cables, microwave eqpt. & other eqpt. for P. & T.	Mfr. of Steel barrels for Oil industries
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Investment	5	12.11	66.29	74.22	10.35			189.40	17.85	0.26	208.88	45.92	10.0	1.34		17.54	0.13	0.23	12.88	1.12	8.72	0.12
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Name of Firm	c)	Hindustan Organic Chemicals Ltd.	Indian Drugs &Pharmaceuticals Ltd.	Indian Petro-Chemicals Corpn. Ltd.	Madras Fertilizers Ltd Sambhar Salts Ltd	(B) CAPITAL GOODS	(i) Heavy Engineering	y Elect. Ltd	Bharat Heavy Plate & Vessels	& Roof Co. of India Ltd.		Mining & Allied Machinery	Triveni Structurals Ltd.	Tungabhadra Steel Products Ltd.	Medium & Light Engineering		Bharat Pumps & Compressors Ltd.	Biecco Lawrie Ltd.	Historian Caples Ltd. Hindustan Machine Tools Ltd.	Hinduston Telenminters Ltd		. Industrial Containers Ltd
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Production of Industrial December Control L.	Mf. of Chinding and Charles	Mfr. of surveying ontical metaorelogical estimates	& Industrial Instruments Wfr. of high speed cutting tools and Measuring Ins.	truments Prod. of goods for Def. Railways, Steel Plants. &	Power Projects Mfr. of Steel barrels for Oil Industry	A COMPANY TO THE WORLD TO THE PARTY OF THE P	Wfr. of hazare earth moving equipt and and and	Transportation of cargo by river between Assam and	Construction & repair	Mfr. of Aircrafts, Aeroengines, missiles, etc.	Const. of large capacity dredgers, Fabrication of sophisticated Tech. Str. Marne Diesel Engines.	etc.	Mfr. & repair of ocean going vessels	Building Warships and Merchant Ships as also ship	Tepair work Wfn of 100 000 9 whode in 3 90 000 12	scooters		MG. A.C. 11 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Production of Condoms	Mfr. of photographic sensitized materials	Durchashin	Induction of paper	bread & bakery products.	Production of Newsprint	Leather Tanning & Production of Footweer	
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· Instrumentation Ltd.	. M/c. Tool Corpn. of India Ltd.	· National Instruments Ltd	. Praga Tools Ltd.	. Richardson & Oruddas (1972) Ltd.	. Steel Containers Ltd	(iii) Transportation Equipment	Bharat Earth Movers Ltd	. Central Inland Water Trans- port Corpn.	Goa Shippyard Ltd	Hindustan Aeronautics Ltd	Garden Keach W/Shop Ltd.	Dindant of	Managen Shippard Ltd	Mazagon Dock Ltd.	Scooters India Ltd.		(O) CONSUMER GOODS	Bharat Opthalmic Glass Ltd	Hindustan Latex Ltd.	Hindustan Photofilms Mfg.	Mandya Nahmal Paper Mills	Modern Bakeries Ltd	National Neuromint & Donor	Tahat	Tannery & Footwear Corpn.	
62	63	64	. 65			Tr.	:			:	:		:	:			007	:		:	:	:			:	
9	9	9	9	99	67	(III)	88	39	20 1	70	4	7.9	5 2	- 8	15		6	16	11	180	13	80	00		64	

	International Airline Services-Passenger & Cargo	Bulk Cargo & Passenger Charters-International	Domestic Airline Service	Administration and management of Airports	Passenger-Cum-Cargo services on Red Sea Route and West Asia Gulf Sector	Operation of regular cargo liner services, passenger- cum-cargo services, overseas & coastal tanker	services, coastal dry cargo services & overseas tramp trade	Road Transport Service		Production of pre-stressed and pre-elements used in Building Construction	Undertake major construction work	Mineral Exploration on Promotional & contractual basis	Supervising & carrying out of major construction work	Construction of & Power Plants as well as other industrial projects	THE RESERVE AND ADDRESS OF THE PARTY OF THE	Eng. Tech. & Consultancy services in fields of petroleum, petrochemicals, fertilizers, general	Implementation of ind. projects in India and abroad from design to commissioning on turn-leav basis	Consultancy services in the field of steel and allied industries.
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	82.63	0.01	59.43	17.60	27.85	267.58		1.75		0.98	747.45	5.07	3.38	5.50		0.18	0.13	Neg.
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	Towner Civil & Aciabon	· · ·	do	do	Shipping & Transport	do.		Shipping Transport		Works & Housing	Steel & Mines	do.	Works & Housing	Energy-Power		Petroleum	Heavy Ind.	Steel & Mines
(ii) Transportation Serves	Air India ,	Air India Charters Ltd.	Indian Airlines Corpn.	International Airport Authority of India	Mogul Lines Ltd.	. Shipping Corpn. of India		Central Road Transport Ltd.	(iii) Contracts & Construction Services	. Hindustan Housing Factory Ltd.	. Hindustan Steel Works Construction Ltd.	. Mineral Exploration Corpn. Ltd.	National Bldg. Construction Corpn. Ltd.	National Projects Construction Corpn. Ltd.	(iv) Industrial Development & Technical Consultancy Services	. Engineers India Ltd.	Engineering Projects India Ltd.	. Metallurgical & Eng. Consul- it
Tra	;			;		:			Con				:	-	Inc		:	
T.	7—A	310	201 =	106	107	108		109	(iii)	110	111	112	113	114	(iv)	115	116	117

Activities 6	Eng. & Management consultancy services, including design, detailed eng., erection and commissioning monitoring & construction management services for gen. eng., metallurgical and process plants including pulp & paper projects.	Tech. & economic & all other types of consultancy services relating to Railways.	Exporting abroad Indian expertise in the field of water & power projects.	Aid, assist, finance & promote small industries.	Devel. of small industries in Delhi.	Const. & Management of Airport Hotels, Flight Kitchens, etc.	Const. & Mangmt, of hotels, motels, etc., Production & Sale of publicity materials, entertainment facilities, etc.	To assist film industry by providing finance for good and quality films.	To promote housing & Urban Devel. programmes.	To assist by way of loans for rural elect. projects.	Managing the affairs of sick textile Units taken over by the Govt.	Creating employment opportunities for displaced persons from East Pakistan by granting financial and other assistance to Industrial Units.
2 4		:	: 8		:	:	:		:	:		:
Investment £ million 5	2.51	0.05	0.22	23.71	2.55	1.07	13.04	0.93	23.22	97.22	55.68	6.72
u	:	:	:	- :	:	:	:	:	:			:
Year of Incorporation	1954	1974	1969	1965	1971	1971	1966	1960	1970	1969	1968	1959
Administration Y Ministry Inco	Ind. Devel.	Railways	Energy-Power	Ind. Devel.	тор	Tourism & Civil Aviation	do.	Infor. & Broadcasting	Works & Housing	Energy-Power	Commerce-Export Prod.	Supply & Rehabilitation
Serial Name of Firm No. 3	118 National Industrial Development Corpa, Ltd.	119 Rail India Tech. & Economic Services Ltd.	120 Water & Power Develop. Consultancy Services Ltd.	(v) Development of Small Industries 121 National Small Ind. Devel.	122 Delhi Small Ind. Develp. Corpn.	(vi) Tourist Service 123 Hotel Corpn. of India Ltd	124 India Tourism Devel. Corpn. Ltd.	(vij) Financial Service 125 Film Finance Corpn. Ltd.	126 Housing & Urban Devel.	127 Rural Elect. Corpn. Ltd	(viii) Rehabilitation of Sick Ind.128 National Textile Corpon. Ltd.	129 Rehabilitation Ind. Corpn. Ltd.

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Production Service Total Enterprises Enterprises		me 4,221.4 3,076.6 7,298.0	6.5., 7.8., 14.3	4,214.9 3,068.8 7,283.7	605.4 Neg 605.4	3,609.5 3,068.8 6,678.3	and	537.5., 550.3., 1,087.8	299.9 1.9. 301.8					4,446.9 3,621.0 8,067.9
	By Sales/Operating Income	Gross Sales and other operating income	Less Commission and Discount		Less Excise Duty		By closing stock of finished goods and work-in-progress —	Finished Goods	Work-in-prograss			1	Gu	mulpaunemio
Total		835.8	288.1		3,153.7		1,687.0	731.2	72.6	659.7	217.6	21.2	401.0	8,067.9
Production Service Enterprises Enterprises		475.8	1.4		2,339.0 3		85.0	117.1	21.0	406.6	35.0	1.1.	139.0	3,621.0
Production Enterprises		360.0	286.7		814.7		1,602.0	614.1	51.6	253.1	182.6	20.1	262.0	4,446.9
P	To opening stock of finished goods and work-in-progress—	Finished goods	Work in Progress		To purchase of finished goods		To consumption of raw materials, stores	To salaries, wages, welfare and other benefits to employees	To repairs & maintenance	To power, fuel, royalties, freight, hand- ling charges, removal of over-burden and other expenses	To depreciation, amortization of development expenditure	To write-off development, commission- ing and deferred revenue expenses	To Gross Profit brought down	

CONSOLIDATED PROFIT AND LOSS ACCOUNTS (Fiscal 1974)

Production Service Total Froduction Service Total	14.8. 95.1	3.7. 7.7. 11.4 By net loss (of undertakings carried 87.5 9.6 97.1 down) t 39.8 26.4 66.2 66.2 6.2(-)10.3.	50.4. 41.6. 92.0	arried 181.5. 48.5. 230.0	349.5 148.6 498.1	87.5. 9.6.	405.5 20.1 47.6 By deficits carried to Balance Sheets 545.6 39.8 585.4	34.1., 23.8., 57.9	68.1 0.1 68.2 0.0 4.3 14.9	48.4	738 8 89.1 827.9
											T 00 0 00 T
Pro	To interest on loans (i) From Central Govt (ii) From Foreign Parties		To provision for tax	To share of loss on partnership account To net profit (of undertakings carried down)		ought down ought forward from pr	vious year To Development reserve	To General and other Reserves	To specific Reserves	To balance carried to Balance Sheet	

CAPACITY UTILISATION IN SELECTED ENTERPRISES

					(Figure	es per ce	nt.)	
				1970		1972		1974
1.	Hindustan Zine Ltd			65		68		83
2.	Neyveli Lignite Corpn. Ltd.			49		48		49
3.	Bailladilla Iron Ore Unit of National ment Corpn. Ltd.	Mineral	Develop-	47		51		97
4.	Pyrites, Phosphates & Chemicals Lt	d.		17	14	17		37
5.	Barauni Refinery (IOC)			77		79		94
6.	Gorakhphur Fertilizer Unit (FCI)			80		86		91
7.	Sindhri Fertilizer Unit (FCI)			45		48		56
8.	Namrup Fertilizer Unit (FCI)		**	70		78		89
9.	Hindustan Organic Chemicals Ltd.			41		46		68
10.	Hindustan Salts Ltd.			68		69		75
11.	Antibiotics Plant (IDPL)			43		42		46
12.	Bharat Heavy Electricals Ltd.—							
	(Hyderabad Unit).			40		51		72
	(Hardwar Unit)			_		24		53
	(Bhopal Unit)			60		82		87
	(Tiruchi Unit)			35		112		104
13.	Bharat Heavy Plates & Vessels Ltd			-		22		35
14.	Heavy Machine Building Plant (HE			30		35		46
15.	Heavy Machine Tools Plant (HEC)			-		8		22
16.	Mining and Allied Machinery Corpn.			25		34		42
17.	Triveni Structurals Ltd.			_		52		74
18.	Hindustan Cables Ltd.			58		59		63
19.	Hindustan Machine Tools Ltd.—							
	Units I & II			45		44		52
	Unit III			40		46		60
	Unit IV			_		59		50
	Unit V					10		12
	Watch Factory			90		95		85
20.	Machine Tool Corpn. of India					65		80
21.	Praga Tools Ltd			35		38		59
22.	Richardson and Cruddas Ltd.			_		80		83
23.	Bhart Earth Movers Ltd.			-	3.5	76		95
24.	Bharat Opthalmic Glass Ltd.			_		32		26
25.	Hindustan Photofilms Ltd.			38		48		77
26.	Bhilai Steel Plant (Steel Saleable)			85		89		86
27.	Durgapur Steel Plant (Steel Saleable			30		38		42
28.	Rourkela Steel Plant (Steel Saleable		***	60		62		66
29.	Aloy Steel Plant, Durgapur		and the same	40		61	**	78
30.	Surgical Instruments Plant (IDPL)	Military Company		15		27		11
00.	ou-Sient short amount a total (TDID)		**	10		41	1.1	-

Some Aspects of Co-ordination of Public Enterprises in Sri Lanka¹

V. C. B. UNANTENNE

THE rapid expansion of Public Enterprises in Sri Lanka is borne out by the fact that, while at the end of 1950 there were only 3 State Corporations, there were no less than 40 State Corporations formed in the next 20 years (that is, up to 1970), while this number more than doubled in the next 5 years between 1970 and 1975. By the middle of 1975 there were as many as 85 State Corporations operating in Sri Lanka. The total investment in State Corporations rose in 1974 to Rs. 5,390 million from Rs. 4,747 million in 1973, and a total number of 260,766 were employed by the end of 1974². Accurate figures relating to the total investment in all State Corporations are available only for the period ending December ,1969. Rs. 1,715 million had been invested in State Corporations as at the end of 1969. The Gross National Product in 1969 at Constant Prices amounted to Rs. 9,380 million. It would thus be seen that the total invested capital in 1969 amounted to 18.3% of the Gross National Product for 1969 so that even as at 1969 the investments in State Corporations amounted to nearly 1/5th of the Gross National Product, thus pointing to the substantial and vitally important position held by State Corporations in the economy of Sri Lanka.

During the period of the second world war State-owned factories functioned under a system of Advance Account and were run by the Department of Industries like any branch of a Government Department. The Corporations Act, No. 19 of 1955, enabled these factories to be incorporated. However, to start any new industries as State Corporations Government had to introduce a new Bill. The State Industrial Corporations Act, No. 49 of 1957, enabled the Government to set up and carry on an industrial undertaking, or take over any Corporation already established under the previous Act. The Act of 1957 is particularly important because these public enterprises were thereafter exempted from rigid Treasury control and the application of Government Financial Regulations and were allowed flexibility of operations and financial management to be placed on a commercial accounting basis, thus combining the benefits of State management with a profit-oriented form of financial management, hitherto associated with the private sector.

There is no doubt that political and ideological considerations have provided an impetus to the expansion of State Corporations in this country. The State control of industries basic to the economy is an essential element of the Socialist way of thinking and the form of organization of the State Corporation has become an acceptable compromise between a highly centralised Socialist economy and the need for economic management by the State. Thus, while the State controls the basic sectors of production and distribution as the country is committed to a Socialist form

¹This Paper was Presented at an Expert Group Meeting on "Co-ordination of Public Enterprises" held in Kuala Lampur under the auspices of the Asian Centre for Development Admiristration in September, 1975.

² Central Bank of Ceylon (Sri Lanka) Annual Report, 1974.

of Government, the agencies of the State operate within the framework of a mixed economy with private enterprise sharing limited areas of activity mainly in the field of import substitution of consumer goods.

However, ideological considerations alone cannot be ascribed as the reason for the setting up of State Corporations which are the product of a complex of political imperatives and practical needs. Items such as cement, steel, tyres, petroleum, insurance are not only basic elements in the economy, but also of great strategic importance and have necessarily to be operated as State enterprises. Public utilities such as electricity, broadcasting and railways are universally acknowledged as suited to be set up as Corporations not only because they are essential life-lines but also because they are items of basic infra-structure which should be under State control without which effective economic and social planning would not be feasible. Further, with the expansion and development of the economy the Government is impelled to expand the State sector with large-scale capital investment so that the profits thus generated can be utilised for further economic development. For instance, 57 State Corporations are to make contributions to the Consolidated Fund in a sum of Rs. 128 million, besides a Corporations tax levy amounting to Rs. 68 million for the year The State has also been compelled to enter into certain fields where private enterprise would be unwilling or does not have the resources to invest in large-scale Projects. The public sector has also expanded in order to control commercial malpractices especially in such fields as foreign exchange, as well as to make available goods and services to the consumer at fair prices.

State Corporations have so far been set up in the fields of manufacturing industry, trade, construction and development as the principal areas of large-scale investment. There are also a large number of miscellaneous statutory bodies which have been set up such as Training and Research Institutes, Educational and Cultural Institutions such as Universities, and Financial Institutions such as Banks some of which are more comparable to organizations of the nature of Foundations or Trusts rather than to the typical form of production or development-oriented State Corporations. There is also the Joint Stock Company form of organization established under the Company Law with the State providing the controlling shares of capital and operating in combination with private shareholdings. Ceylon Dockyards Limited, Consol Expo Limited are examples of this. If must also not be forgotten that there are Public Enterprises still being run as normal Government Departments although they have a very large financial turnover and are run as commercial activities. The Post and Telecommunication Department and the Railway Department are examples of this.

The Government has initiated an interesting experiment with the recent proposal to convert the Ceylon Government Railway into an institution which is a half-way house between a Government Department and a State Corporation.

¹Minister of Finance—Budget Speech, 1975,

It is proposed the Ceylon Government Railway should organizationally remain as a Government Department in regard to the terms and conditions of service of its employees as well as accountability, while the enterprise would be run by a Board of Management instead of the General Manager of Railways. It is important to note that the Board of Management would be given the power to take decisions of a financial nature without the constraint of Government Financial Regulations, and also have the authority to devise methods of financial management which are flexible and profit-oriented.

The form of organization of State Corporations differs according to the objectives, functions and scale of operations. Boards of Directors are appointed by one or more Ministers of State but there is no uniformity in the number, and some are ex-officion members representing the Ministry, the General Treasury or the Planning Ministry interests.

The organizational structure and the pattern of management also differs according to functional activities and scale of operations. For instance, although the River Valleys Development Board has its head office in Colombo, since it is a Regional Development Corporation, the major staff concentration is in the field with nearly 9,000 skilled as well as unskilled labour grade employees as well as nearly 1,700 Administrative, Engineering and allied grade staff resident at Uda-Walawe which is the development area. The River Valleys Development Board which has been functioning on the lines of the Tennessee Valley Authority of the USA integrates all Central and Local Government Development activities, provides the entire social and economic infra-structure in addition to carrying out multi-purpose irrigation, hydrel and agricultural development. It also organises agricultural settlements on a colonization basis and finally hands over, after full development, to the normal agencies of Government. On the other hand the State Engineering Corporation or the State Development and Construction Corporation functions more like Engineering Consultants and Contractors moving on their engineering staff from work-site to work-site according to construction schedules.

The Co-operative Wholesale Establishment, which is a State trading organization, has its Chairman/Directorate and Managerial staff in Colombo, but operates an allisland net-work of 7 wholesale depots and 101 retail sales-points. It also operates a Flying Squad which reaches out to Districts to eliminate profiteering, hoarding and other malpractices.

State Corporations have been established under different Ministries and are directly accountable to each Minister. The largest number are manufacturing Corporations under the Ministry of Industries and Scientific Affairs—17 in number as at the end of 1973—with a total turnover of Rs. 1,658 million and an aggregate profit amounting to Rs. 189 million. The total number of employees in manufacturing Corporations is over 32,000.

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Some Ministries have set up special Divisions to carry out the Central Co-ordinating Function in relation to Staff and Organization. In the Ministry of Industries a "Regulations" Division and a "Development" Division carry out this function, while other Divisions are in charge of such matters as Investment and Training Policy, allocation of foreign exchange, etc. Besides the Ministry concerned, the Corporations Division of the General Treasury exercises financial control through the evaluation of Project activity, examination of Annual Budgets and review of major increases in investment/expenditure before granting approval. The Corporations Division of the Ministry of Planning exercises a similar controlling and co-ordinating function. It examines the Investment Programme in relation to production turnover and allocation of foreign exchange and carries out Project evaluation as well as fitting in of Programmes within the sectors of the National Plan. The Central Bank carries out an annual review of the activities of each State Corporation and publishes the results in its Annual Report. The final accounts of each State Corporation are audited by the Auditor-General and submitted to the Public Accounts Committee which finally makes its observations to the National State Assembly.

A State Corporation is established either under a Special Law or incorporated by Order under the Corporation Act, No. 49 of 1957, and gives each Minister not only the power of controlling Policy but also appointing and removing Directors as well as approving the Budget and Investment Programmes. Although each Minister has the power to give directions even in regard to operational activity, in practice a great deal of autonomy is granted to the Chairman as well as the Board and the Management in decision-making and execution.

The autonomy of State Corporations as well as their lack of organizational uniformity are mainly responsible for the absence of common policies or common procedures. Although the State Services comprise over 350,000 employees, the number of posts have been classified within about 140 grades with a single salary scale for each grade. On the other hand, the State Corporations examined by the Cabinet Sub-Committee had as many as 1,547 salary scales for 137,000 employees of 50 Corporations. Posts with comparable responsibilities have no uniform qualifications. There have been cases of persons selected to the higher Engineering Grades whose qualifications would not have warranted an appointment to the middle technical grade in a Government Department. The Report of the Sub-Committee of Ministers¹ drew attention to the uncontrolled expansion of office grade staff and correspondingly higher remuneration and career prospects available to such grades, as against technical and skilled labour grades whose salaries and prospects were much less attractive.

Similarly, autonomy in financial management has resulted in the freedom to fix salaries without any norms or standards with the resultant plethora of salary scales and grades.

¹ Report of the Cabinet Sub-Committee on terms and conditions of employment in Statutory Boards and Corporations (Chairman, George Rajapakse).

Duplication of activity is another area of waste of National Resources. For example, in the area of State Trading, the Co-operative Wholesale Establishment, the Sri Lanka State Trading Corporation, the Ceramics Corporation, the State Hardware Corporation and many others each producing or distributing a particular item or items of consumer goods have set up a net-work of Wholesale Depots and retail outlets throughout the island with heavy staff overheads. If all the staff are deployed at the local level on a single shop-floor basis there would be substantial economies of scale, reduction of distribution costs and lower consumer prices. Similarly there are two Regional Development Corporations and two Major Engineering Corporations handling contractual work with each of them facing the problem of excess staff and insufficient trading activity to engage all their resources.

It is therefore necessary before Government sets up any new Corporations to examine the functions of existing Corporations and satisfy itself whether the activity proposed to be carried out through the new Corporation cannot be handed over to an existing Corporation handling similar functions. It is equally important that there should be a complete review of the entire field of Corporation activity with a view to rationalization of functions, elimination of duplication, amalgamation of Corporation handling similar activities to effect economies of scale and to wind up all superfluous organisations.

The following reasons make it difficult to establish a single Central Agency for co-ordinating the work of State Corporations:—

- (1) Corporations have been established under different Ministries and are answerable to each Minister both in respect of Policy as well as their operations. While each Minister exercises control through his own Ministry, independent Ministerial authority renders central control through one Agency a difficult proposition to recommend. Under the new Republican Constitution of Sri Lanka which came into operation in May, 1972, the Cabinet of Ministers has further delegated each Minister with powers relating to appointments, etc., so that the concept of independent Ministerial authority has been constitutionally reinforced subject, of course, to Cabinet authority in matters only of common policy.
- (2) As already indicated, State Corporations are functionally associated with different Agencies for different purposes. For example, the Treasury exercises a certain amount of financial control, the Planning Ministry appraises Projects and fits in Programmes within sectors of the National Plan, the Auditor-General's Department carries out the annual audit and reports to the National State Assembly through the Public Accounts Committee.
- (3) It has been seen that the structure as well as the organisation of State Corporations differ from each other without a uniform model.

- (4) The concept of autonomy of State Corporations, giving them substantial freedom both in financial matters as well as matters relating to recruitment and operational activity which is jealously safeguarded by Corporations, makes the proposition of Central Control by a single Agency subject to tremendous opposition.
- (5) The complete lack of uniformity in recruitment policy, fixing of salaries, and the absence of a means of controlling staff expansion within Corporations not only shows up the need for a Central Agency to control such matters, but also indicates the types of interests that would oppose any such control.

There have been various attempts at examining this problem and the suggestion of various possible alternatives. The Ministry of Industries and Scientific Affairs has suggested the setting up of Sectoral Corporations, grouping Corporations with like activities as well as amalgamating smaller Corporations with bigger ones engaged in like activities with a view to rationalising their activities. These Sectoral Boards are to take over from the Boards of Directors and to effectively direct Policy, evaluate performance and review progress. The Sectoral Boards in turn would operate closely through the Ministry concerned thereby bringing about closer Ministerial control over both Policy as well as operations. This suggestion is worth pursuing as it would pave the way for one Central Co-ordinating Agency to have linkages through the Staffs of the different Ministries with Sectoral Boards thereby carrying out more effective control and co-ordination.

The Ministry of Public Administration, Local Government and Home Affairs has suggested examining the feasibility of setting up a Holding Company which, like Sectoral Boards, would control Policy-making, plan Operations, examine Investments, define Personnel, Financial, Administrative and Production Policy, etc., with the day-to-day operations being handled through individual production units with regional subsidiaries where needed.

The Cabinet Sub-Committee (referred to earlier) has recommended the setting up of a State Corporations Secretariat under the supervision of the Prime Minister (who is in charge of the subject of Planning) which could exercise the type of supervisory control referred to earlier in respect of Sectoral Boards/Holding Companies. The Sub-Committee also recommended a comprehensive Corporations Law which would provide for a wide range of control of Policy and operations, regulate budgetary and financial procedures, fix accountability, lay down Rules of Procedure in regard to such matters as remuneration, recruitment policy, etc., as well as lay down rules in regard to the manner of reporting annually to the National State Assembly, etc.

The Cabinet Sub-Committee also strongly recommended exercising more effective Parliamentary control through such methods as:

(1) (a) Programming and Reporting-

Each State Corporation should provide a Programme Budget to be tabled in the National State Assembly with the National Budget giving information of a broadly classified nature relating to major fields of activity such as revenue, expenditure, production and turnover, foreign exchange budget, etc.

(b) Progress Reports-

These too would be of a broadly classified nature dealing with such matters as production shortfalls or excess, production targets, losses, new investments and the progress and expansion of new units, etc.

(c) Final Accounts-

There should be Statutory provision for Corporations to render Final Accounts well in time to the National State Assembly annually.

(2) There should be a Select Committee of the National State Assembly sitting regularly, examining and evaluating the documentation which would come up to the National State Assembly and advising the Government both in regard to Policy as well as Operations.

It would thus be seen that attention has been focussed on the need for a Central Co-ordinating Agency to control and co-ordinate the Policy of State Corporations. However, there has been no decision taken yet in regard to the form which such Agency should take or the manner in which it should be established. There is no doubt an imperative need not only in respect of Sri Lanka, but, perhaps, in respect of other developing countries in the region also that their National Government should treat this at the highest level of policy and device the necessary organizational arrangements to establish such an Agency.

This need is felt most urgently in the fields of recruitment policy, staff training and disciplinary control. There is no substitute for competitive selection based on the highest educational and professional standards and the adoption of objective and impartial recruitment procedures. Experience has also shown that such standards can only be maintained when recruitment as well as placement is handled by a Central Agency which is insulated from the influence of preferment and patronage or the whims of personal subjectivity.

The need is felt equally severely in the fields of Staff Training, Management and Career Development. As the Staff of State Corporations are not interchangeable or are not subject to transfer even within allied fields, administrative and professional experience become very limited in scope which largely explains the continuing dearth of top management skills in the Corporations sector. Purposive career development also becomes impracticable in such circumstances as there can be no substitute for on-the-job training. Although the Sri Lanka National Institute of Management

Services the Management Training of Corporations staff, the lack of varied career experiences is a visible constraint to the development of higher Managerial skills. Therefore, a Central Agency for co-ordinating Recruitment, Placement and Training of Staff becomes a prime necessity especially in view of the current expansion in the State Corporations Sector.

Finally, it is observed that it would be necessary to begin initially with the establishment of a Central Policy-making Body at the highest political level. This could take the form of a Permanent Council of Ministers with State Corporations in their charge headed by the Prime Minister/President (as the case may be) serviced with a State Corporations Secretariat, which Council should have the power, under Law, to exercise Central Control and Co-ordinating Functions in respect of the various matters which have already been dealt with in this Report.

The Ministers should perforce have to refer matters of Policy through the State Corporations Secretariat to the Ministerial Council for decision and all Ministries as well as Agencies having any functional or operational links should be represented in the Corporations Secretariat through their Senior officials. An Official Body consisting of Secretaries of the Ministries concerned should service the Council helping to co-ordinate Policy both in relation to individual sectors as well as the over-all National Plan and liaise with the Secretariat as well as with the Corporations, thus ensuring the necessary consultative machinery at all levels without which the Central Co-ordinating Agency would find it difficult to function.

Public Sector Enterprise and Accountability

M. D. AMARASINGHE

The purpose of this article is to attempt a survey of Public or State Sector Enterprises from the standpoint of Accountability. It would be quite appropriate to state in clear terms what accountability connotes in the essay. Professor William A. Robson has set out in his illuminating and exhaustive book "Nationalised Industry and Public Ownership" what accountability means as follows:

"To account for one's actions means that one gives a report of what one has done in a specified period of time, together with whatever explanations may be necessary to justify the actions performed or the ends pursued".

More recently, a Report of a Seminar organised by the Commonwealth Secretariat, The Government of Jamaica and the University of West Indies on the Role and Management of Public Enterprises in October, 1976, has explained what accountability means as follows:—

- "Accountability can relate on the one hand to financial and economic matters, and on the other to social aspects. These were seen as complementary facets of the same problem even though the questions raised by considerations of each aspect may appear to place them in opposition of each other. In general, it was agreed that the following considerations held:
 - (a) It is the entity as a whole that is accountable to Parliament and to society and not any individual member of the organization, the executive or the Board.
 - (b) But there is a hierarchy of accountability, i.e., the entity is accountable to the political directorate (the supervising Minister or Ministry) which is in turn accountable to the Government or Cabinet which, finally, is accountable to Parliament as the forum of the Peoples' representative and which is responsible to society at large. Internally, the Board is accountable to the Ministry, the Chief Executive to the Board and so on, down the line of Management individually ".

It is these definitions and concepts that will be used in this essay.

For ease of exposition, this essay will be in three parts. The first Part will present a brief historical development of the philosophy and concept of the Public Sector enterprises in Sri Lanka. Part II will attempt a short account of the present arrangements for assessing their performance. Finally, reference is made in Part III to certain proposals which may be adopted in this country with advantage which will enhance the accountability of Public Sector Enterprises.

The participation of the State in industrial and commercial ventures has become an established feature of State policy in many countries. The course of history, increasing economic difficulties experienced by different countries seem to justify the State venturing into industry and commerce.

The followin reasons may be advanced as sufficient justification of the Public sector undertaking such responsibilities:

- (i) The concept of planned economy necessarily leads to the State participating in the actual management and not merely the regulation of commerce and industry.
- (ii) By the very nature of risks and returns involved, private enterprise shy away from entering into certain areas of enterpreneurship. Thus, State intervention becomes imperative in a situation in which capital investment funds need a great deal of building up. The planning initiative, the ability to assess the requirements of the country and to establish the capacity to meet these requirements logically came within the purview of the Public sector.
- (iii) A Government which is committed to the objective of a socialist society is compelled to enter directly into commercial and industrial activity.
- (iv) Fulfilment of some of the specified aims of social and economic justice is another reason for the State embarking on industrial and commercial enterprises.
- (v) Large-scale participation by the Government in Public ventures is bound to augment the national product which becomes available for distribution and reinvestment.
- (vi) The criterion of Public sector undertakings is not necessarily based on profitability, but economic and social needs.

The Sri Lanka situation may be viewed from the above view points.

There is a popular misconception that shortages of consumer goods and war requisites consequent on the Second World War resulted in the Government undertaking industrial ventures. This does not seem to accord with facts.

The first report on industry appeared as far back as 1922 (Sessional Paper No. 1 of 1922). At the turn of this century, there were only processing factories to meet the requirements of agricultural produce from the tea, rubber and coconut plantations. The Government at the time did not involve itself in such activity, and was looked after by the private sector concerns. Although the Sessional Paper of 1922 was the first inunciation of Government industrial policy, it was only in 1931 that a separate Ministry of Industries was set up which declared its policy as one of fostering private enterprise. But nothing tangible was achieved as the 1930's was the decade

of the depression. The Government's attention was focussed on the immediate task of providing employment and for this sufficient funds were not available. By 1938, a period of prosperity set in and the State began to think of industrialisation. An effective draw-back was the lack of technical know-how. But the outbreak of the Second World Warfur ther forced the pace. The following industries were established:—

- 1. Plywood and Saw-mill
- 2. Steel-rolling Mill
- 3. Leather Factory and Tannery
- 4. Quinine and Drugs Factory
- 5. Coir Yarn Factory
- 6. Ceramic Factory
- 7. Acetic Acid Factory
- 8. Glass Factory
- 9. Semi-mechanised Paper Factory.

(Sessional Paper No. 19 of 1953—Report of the Commission on Commercial Undertakings).

These undertakings formed an important nucleus of the present public sector enterprise. These factories proved to be profitable only during the period of the war, but incurred heavy losses thereafter. This prompted the Commission on Government Commercial Undertakings to recommend the closure of the factories. The Government however, was not agreeable to give effect to this recommendation probably due to the upward trend in unemployment at the time and therefore it continued the policy of running these industries as best as it could with zeal and enthusiasm. This enthusiasm proved to be short-lived for, the Report of the International Bank for Reconstruction and Development in 1952 and the Report of the Commission on Government Commercial Undertakings in 1953 were both critical of Public Enterprise and recommended the abandonment of most of the projects which the State proposed to start. This resulted in a complete reversal of the policy hitherto followed by the Government.

In the evolution of Industrial policy of this country, the State Industrial Corporations Act of 1957 stand out as an important land-mark and resulted in a period of rapid growth of industries. A change of Government in 1965 did not effect any change and industrial corporations continued to expand at a rapid pace.

This brief summary shows that Public ownership of industry is not something new to Sri Lanka and the State expected to play a major role in industrial development.

II

It is clear that successive Governments since the mid-fifties have accepted the public corporations as an instrument of expanding the industrial sector and infra-structural sector activities. In this context, the functional setting of public enterprise vis-a-vis the State has caused considerable controversy. It cannot be said that there is any significant degree of agreement amongst the experts as to the steps that should be taken to bring about harmonious relations between the Legislature and the Ministries on the one hand and the public enterprises on the other.

The following table shows the heavy capital investment outlay by the State in Public Corporations:—

Total Capital Investments of Public Corporations 1973-1975

Rupees Millions

Sector	1973	1974	1975
State Industrial Sector Trading Corporations Services Financial Institutions	1,988.4 372.7 1,850.9 534.8	2,346.1 422.0 2,009.5 612.1	2,963.6 501.8 2,222.6 736.2
TOTAL	4,746.8	5,389.7	6,424.2

Srouce: Central Bank of Ceylon, Review of the Economy, 1975

Such a massive outlay by the State naturally evokes widespread Public interest. One is struck at the frequency with which the Press continues to comment on the activities of the Corporations. In an atmosphere of such widespread feeling that there is a great deal of inefficiency, incompetence, waste and corruption in public corporations the problem of the accountability of public sector enterprise has come to the forefront. This problem has defied any satisfactory solution, for public corporations as forms of business organisations have been set up to ensure the flexibility necessary to run such organisations free from bureaucratic control whilst at the same time to permit the legislature to determine matters of policy concerning them.

As is common in most democratic countries, possibility exists for reviewing or assessing the performance and activities of public sector corporations in Sri Lanka by resorting to any one of the following methods:—

- 1. The National State Assembly together with the Public Accounts Committee.
- 2. Invoking the Minister's powers.
- 3. Auditor-General.
 - 4. Administration Reports
 - 5. Ad hoc Committee of inquiry.

In the National State Assembly, an opportunity presents itself when it could critically examine the affairs of a corporation on the following occasions:—

- (i) Budget Debates,
- (ii) Debates, e.g., when the Corporations present their long-term development plans or when extra capital is sought.
- (iii) When the annual reports and accounts are laid before the House.
- (iv) Questions in Parliament.

The affairs of the public sector enterprise come up for scrutiny before the national State Assembly during Budget Debates and when their annual reports toegther with the Auditor-General's reports are tabled in the House. But due to the pressure on parliamentary time, it is not able to examine such reports in any great detail. At best members make use of this opportunity to highlight matters pertaining to their constituencies or an act of negligence which come to their notice. Furthermore, there is no expertise knowledge to undertake a critical analysis of the annual reports and accounts. The opportunity available to the members of the House to raise any matter regarding the working of a corporation during question time has been of very limited use. This is mainly due to the fact that the Minister is not answerable to the House on matters of day-to-day operations of an undertaking.

Another important device which could effectively control and review the work of public enterprise is the special powers of the Minister responsible for the particular activity. The Minister is empowered to appoint the Board of Directors, the Chairman and to approve the appointments to top level positions and determine their conditions of service. Further, he will have the power to issue directives after consultation with the Chairman of the enterprise. For example, Section 6 (3) of the Sri Lanka State Trading Corporations Act, No. 33 of 1970, enumerates the powers of the Minister as follows:—

"The Minister may, from time to time, order all or any of the activities of the corporation to be investigated and reported upon by such person or persons as he may specify, and upon such order being made, the Board of Directors shall afford all such facilities and furnish all such information to such person or persons as may be necessary to carry out the order".

Similar provisions are found in almost any of the Acts under which corporations are established. Special powers of the Minister places him in a very strong position vis-a-vis the corporation in this regard.

Corporations' Audit is carried out by the Auditor-General which is a regularity audit. The Auditor-General normally reports any lapses to the Public Accounts Committee. Whilst it is conceded that formal correctness and conformity with rules of procedure are necessary, yet negative standards such as these do not meet the full requirements and therefore inadequate. This sort of approach has effectively stiffled the initiative of the official who would not act unless they are protected by some rule or precedent. Far from liberating the corporation from bureaucratic practices and procedures, too much emphasis on rigid unimaginative controls have been the order of the day and corporations have been run more like Government Departments.

The annual report is an established feature in all the corporations. The usefulness of these reports have been minimal due to their delayed publication and the information they contain is of little consequence.

Occasionally it becomes necessary for an ad-hoc committee appointed by the Minister or President to inquire into the working of public sector institutions. In such an event, the affairs of the institution come under close examination and often contain useful suggestions for future corrective action.

Special mention must be made of the Finance Act, No. 38 of 1971, provisions of which are pervasive and far-reaching. Corporations are obliged to render their accounts to the Auditor-General within four months after the close of any financial year (Section 13 (6) of the Finance Act). The governing body of a corporation shall be guilty of an offence under the Act by reason of a contravention of the same provisions. Further, the Finance Act of 1971 (Section 8) requires that an annual budget should be prepared three months prior to the commencement of the financial year. It also specifies what the budget should contain. The budget so prepared is to be submitted to the Minister in-charge of the corporation, the Ministry of Planning and the Ministry of Finance. The Act also stipulates that proper accounts and other records be maintained. In order to give effect to these provisions in the Finance Act, a three tier institutional arrangement can be discerned as follows:—

- (i) The supervising Ministry;
- (ii) The Ministry of Planning; and
- (iii) The Treasury.

An analysis of the administrative functions of the Government relating to public corporations would reveal that there is ample opportunity for the State to lay down the policy of the corporations sector and effectively monitor the operations and ensure overall control. These functions can be categorised as follows:

The supervising Ministry is charged with the following functions:-

- (i) Laying down of general policy and objectives;
- (ii) Continuous supervision of the corporations activities ;
- (iii) Examination of new proposals;
- (iv) Approval of the annual budget;
- (v) Review of the draft annual accounts;
- (vi) Appropriation of profits.

The Ministry of Planning is concerned with the following :-

- (i) Evaluation of new proposals, increasing of authorised capital and investment of funds exceeding Rs. 500,000.
- (ii) Co-ordination of development plans and expansion of schemes submitted by the corporations according to national priorities and targets.
- (iii) Laying down guide-lines for the information of Ministries for economic and financial evaluation of Corporations' activities.
- (iv) Advise the Ministries and corporations on the format of their annual reports and the details they should contain.

Finally, the Treasury functions would be-

- (i) Examination of annual Budgets, Accounts and Balance Sheets;
- (ii) Keeping a watch on investments on behalf of the Government in order to obtain a fair return as well as to ensure repayment of loans and interests;
- (iii) Brief the Treasury representatives serving on the Boards of various corporations.

III

In considering the additional methods by which accountability of public enterprise can be secured, it will be worthwhile to examine the arrangements in other countries particularly the developing countries, so that Sri Lanka can benefit from the experience in those countries.

At the outset it has to be noted that there has been no clear statement of objectives of public sector corporations. The success of any venture can be ascertained only by reference to its objectives. No indication is given to the corporations as to what is expected of them in financial terms. The only reference in this regard is Section 7 of the Finance Act of 1971 whereby all corporations are expected to ensure that "the ultimate surpluses on revenue account shall be at least sufficient to cover the ultimate deficits on such account over a period of five years or such other period as may be determined by the Ministry of Finance." One has to concede that the achievement of objectives need not necessarily be interpreted to mean profitability. It is possible to achieve objectives by not making profits. If this position is accepted, the question that arises is how best the accountability of the corporations be effected without interfering with its day-to-day operations. A proper assessment of the performance of corporations makes it necessary to lay down in clear terms the objectives for each of these institutions. The United Kingdom has experimented with this device with a considerable degree of success.

Reference has already been made to the paucity of expert knowledge in the Legislature to undertake a comprehensive examination or review of the annual accounts and reports. Experience in several other countries also indicates that this drawback is common to several of these countries. This serious disadvantage has been obviated to some extent by the appointment of a Select Committee of Parliament on National Industries in the United Kingdom. This is very similar in purpose to that of the Public Accounts Committee. The British Select Committee which has been in existence since 1956 has been partly responsible for significant improvements of performance of State Corporations in that country. The situation in Sri Lanka may not be similar and the required expertise may not be always available in the National State Assembly to undertake an effective review of the operations of corporations. This shortcoming has been overcome in certain countries by the creation

of a further institution to service the Select Committee in the deliberations and to furnish processed information to the Legislature. Professor A. H. Hanson refers to this as follows:—

"It is noteworthy that only a few countries have done much to ensure that either the responsible committee or the legislature as a whole has access to factual material of unimpeachable reliability. In some cases, the reports of the Auditor-General or Court of Accounts are useful to members energistic and interested enough to read them. In Israel, for instance, the reports of the State Comptroller are far wider in scope than comparable ones in other countries and are now valuably supplemented by the reports of the Government Companies Authority. The State Enterprises Secretariat in Ghana should eventually play a similar role. In Yugoslavia members of Parliament receive monthly data about public enterprises from a body known as the 'Social Book-keeping Service'; In Poland, a somewhat similar role is performed by the Sejm's 'Supreme Chamber of Control' which is called upon to supervise the economic, financial, organizational and administrative activities of all State units from the point of view of their legality, good management, purposefulness and reliability. Elsewhere, the process of supplying information about public enterprises to the legislature does not seem to be well organized".

An institution on the lines suggested above, but suitably adapted to suit Sri Lanka conditions appears to be opportune. Such an institution serviced by a Secretariat of the type proposed will be able to focus public attention on any matter needing attention. Since information submitted by the Corporations or by the Ministry may often be biased and therefore be useful to the Parliamentarians, a Select Committee on the lines suggested above will prove very useful.

But such a device may be open to criticism. Public Corporation's should be immune from parliamentary inquisition and detailed scrutiny of day-to-day operations. Professor Hanson answers such criticism as follows:—

- "One might suggest that the main effort be devoted not to restricting the role of the legislature, but to enabling it to behave more constructively. This would involve the provision of adequate opportunities for debating the affairs of public enterprise from the standpoint of principle, policy and achievement.
- It is true that, in removing the restrictions to which some legislatures are subject in their dealings with public enterprise, one is opening the door to interferences with 'day-to-day' as distinct from policy matters. But, if legislators are determined to immerse themselves in such matters, in the interests of constituents they represent or the pressure groups with

 $^{^{1}\}cdot$ Organisation and Administration of Public Enterprises : Selected Papers, New York : U.N. Document No. ST/TAO/M/36.

which they connected, they will certainly do so, whatever formal inhibitions may be imposed upon them. This being so, it is surely preferable for them to speak openly, in a public forum, rather than have recourse to private intrigue".

The arrangements prevailing in a few of the developing countries may be briefly mentioned. Ghana has established a State Enterprises Secretariat. Yugoslavia has a 'Social Book-keeping Service,' which furnished periodical information to the members of the legislature. Poland's legislature has an organisation Supreme Chamber of Control—charged with the supervision of all activities of the state enterprises including financial aspects.

In the present stage of the evolution of the public enterprise sector, it would be opportune to set up an institution of the type referred to above. The vital need today is to ensure efficiency of operations of the corporations. On this issue Professor W. A. Robson observes that "information which can throw light on productivity, on the policies which a board are pursuing and the success with which they are applying them or the extent to which a corporation is abusing its monopolistic position is valuable not only to Members of Parliament, but also to the public and to consumers"².

Opinion is divided as to the extent to which Parliament should exercise control over public corporations. The same situation prevails with regard to the extent of responsibility of the Minister in-charge of the corporation. The real problem with regard to the degree of control and responsibility is "to find a point of balance between intervention and non-intervention based on the distinction (always difficult to clarify) between 'general policy' and 'day-to-day' administration".

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^{2.} Nationalised Industries of Public Ownership.

^{3.} Organisation and Administration of Public Enterprises : Selected Papers.

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