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THE PATTERN OF RURAL GOVERNMENT
&
THE ADMINISTRATIVE PROBLEMS OF STATE
ENTERPRISES

(New Delhi, April 5, 1958)

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INDIAN INSTITUTE OF PUBLIC ADMINISTRATION
INDRAPRASTHA ESTATE, RING ROAD
NEW DELHI-1

Indian Institute of Public Administration
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COMPUTERISED

PROGRAMME OF MEETINGS

April 5, 1958

9.30 a.m.

First Session

"The Pattern of Rural Government"

Chairman : *Shri Gurmukh Nihal Singh*,
Governor of Rajasthan.

2.30 p.m.

Second Session

"The Administrative Problems of
State Enterprises"

Chairman : *Shri Manubhai Shah*,
Minister for Industry,
Government of India.

LIST OF PARTICIPANTS

1. Dr. P.N. Banerjee,
Retired Professor of Economics,
Calcutta University, Calcutta-7.
2. Shri S.B. Bapat,
formerly Honorary Treasurer, *I.I.P.A.* and
Editor, *I.J.P.A.* and Director-Designate,
Public Administration Division,
United Nations Technical Assistance Administration,
New York.
3. Shri T.P. Bhalla,
Member, Public Service Commission, U.P., Allahabad.
4. Shri B.A. Bambawale, I.C.S.,
Secretary, Local-Self and Public Health Department,
Government of Bombay, Bombay.
5. Prof. D.G. Karve,
Chairman,
Standing Sub-Committee on Co-operative Training,
Agricultural Credit Department, Reserve Bank
of India, Bombay.
6. Shri K.N. Kaul,
Member (Finance), Oil and Natural Gas Commission,
Department of Mines and Fuel,
Government of India, New Delhi.
7. Shri V.T. Krishnamachari,
Deputy Chairman, Planning Commission,
Government of India, New Delhi.
8. Shri Parimal Y. Mehta,
Branch Manager,
Life Insurance Corporation, Bombay-4.

9. Prof. V.K.N. Menon,
Director, Indian Institute of Public Administration,
New Delhi.
10. Shri S. Ratnam,
Secretary, Ministry of Finance, Expenditure Division,
Government of India,
New Delhi.
11. Prof. Bodh Raj Sharma,
Head of the Department of Political Science,
University of Panjab, Hoshiarpur.
12. Prof. Sri Ram Sharma,
Principal, D.A.V. College, Sholapur.
13. Shri Manubhai Shah,
Minister of State for Industry,
Ministry of Commerce & Industry,
Government of India, New Delhi.
14. Shri Shri Ram,
Industrialist, 22, Curzon Road, New Delhi.
15. Shri G.M. Sinha,
Secretary, All India Local Bodies Officers' Association,
Moradabad.
16. Shri Gajadhar Singh,
Deputy Revenue Officer (retired), Khurja.
17. Shri Gurmukh Nihal Singh,
Governor of Rajasthan, Jaipur.
18. Shri B.S. Suryanarayana,
Mysore Civil Service (retired), Bangalore-2.
19. Shri A.R. Tyagi,
Lecturer, Department of Political Science,
Government College, Hoshiarpur.

DISCUSSIONS AT THE CONFERENCE

First Session
(April 5, 1958 : 9-30 a.m.)

I

THE PATTERN OF RURAL GOVERNMENT

The *Chairman* (Shri V.T. Krishnamachari, Chairman of the Institute's Executive Council and Deputy Chairman, Planning Commission,) welcoming the member-delegates, observed that the two subjects selected for discussion at the Second Annual Conference were (1) "The Pattern of Rural Government" and (2) "Administrative Problems of State Enterprises in India." These subjects had been considered at technical Seminars convened by the Institute in February 1958, and December 1957, respectively. The First Session of the Conference would be devoted to "The Pattern of Rural Government." Here, a good deal of the ground had already been covered at the Seminar held in February 1958, which had concentrated mostly on the recommendations made in the report of the Study Team on Community Development and National Extension Service, presided over by Shri Balvantray Mehta. The Seminar also discussed some other problems not dealt with by the Study Team. The proceedings of the Seminar had been circulated to all those who were present at the Conference and it was to be hoped that the discussions at the Conference would be more fruitful in view of its wider membership.

Prof. D.G. Karve, opening the discussion, said that the Conference was not expected to arrive at any definite conclusions; its main object was to promote a fuller discussion of the different points of view. Here, he wished to draw the

attention of the Members present to four major aspects of the problem, the discussion of which might be useful in the light of the deliberations of the Seminar held in February 1958. These four aspects related to 'basic principles', 'allocation of functions', 'structure', and 'finance'. The deliberations of the Seminar were mainly concerned with the above four aspects of rural government from the village to the district level in the context of the existing pattern of national life in India.

As regards the basic principles, the Seminar had emphasised that democracy at the national and State levels could not flourish without roots in villages and at some intermediate level between the village and the district. In deciding upon the intermediate level, the variations in the existing administrative set-up and practices had to be taken into account as also the differences in economic and educational development. The immediate requirements in regard to democratic decentralisation should be weighed against immediate risks and a start made in regard to building up of democratic administration from below in the light of the requirements of urgent progress under essential conditions of a progressive social life.

On the question of functions, Prof. Karve referred to the growing opinion for vesting panchayats with all civic and developmental functions of local importance. Development was both an approach and a method. As an approach, it required an increasing association and participation of the people in all local developmental activities in order to make these activities both fruitful and purposeful. As a method, development meant that every civic function to be administered in a progressive society should have a developmental content. Both were thus very much inter-related; unless panchayats could justify their existence in regard to the maintenance of the elementary conditions of civic or social life, they could hardly be endowed with the necessary

powers to undertake the broader and the more responsible functions of development.

The final shape of the structure of local bodies depended upon several considerations. The basic unit of democratic organisation, generally a village, must command a minimum quantum of resources, human, material and moral. If these resources, including leadership, could not be found in a certain individual village, a group of small villages together should form the basis of organisation. The same considerations applied to the selection of the intermediate level for democratic local bodies. The Balvantray Mehta Study Team had favoured the block as a unit of intermediate organisation, allowing at the same time discretion to States to adopt the district or the sub-district instead in the context of their varying administrative arrangements. Obviously a strict uniform pattern in the matter would lead to too much organisational rigidity; if the principle of democratic decentralisation was accepted as a basic doctrine, States should be free to establish the intermediate bodies at the district, sub-district or block level, depending upon their individual circumstances.

The problem of local government finance required an objective consideration. While paucity of resources put a limit on the activities of local bodies, the best approach to the problem was to allocate the functions not on the basis of resources but on considerations of appropriateness, taking care at the same time that local bodies had sufficient resources, obtained both by levying taxes set apart for them and by suitable grants and sharing of Central and State revenues. The past performance of local bodies in the raising of revenue need not be taken up as an index either of their unwillingness or of their incapacity to find the necessary resources.

At this stage, *Shri Gurmukh Nihal Singh*, Governor of Rajasthan, took the Chair.

Shri T.P. Bhalla thought that the whole question of democratic decentralisation required a well thought-out, cautious and gradual approach in view of the varying conditions in the country. While it might be possible to introduce full-fledged democracy in some villages and areas, others were ripe only for 'guided' democracy. The importance of having a homogeneous village community with the requisite resources as a basic unit of democracy could not be denied; but if a large number of villages were grouped together to form a joint panchayat, the people's representatives might find it difficult to meet and confer together. The basic unit of democratic organisation should generally cover a population of 500; if the population of the village was less than that, it might be grouped together with another village but the distance between the two should not be more than two miles. Further, it would be advantageous to have preferably a panchayat in every village, as its members would then be bound together by a sense of mutual understanding and unity of purpose. A certain percentage of seats in the panchayat, say, 33 to 40 per cent, might be filled up by nomination and the rest by election. This allowance for nomination would help to bring to the panchayat local talent which was not otherwise likely to come forward and get mixed up with elections. It would also promote a stable majority party in the panchayat and reduce factions.

The panchayat should have jurisdiction over all civic and developmental functions. Many activities which were at the moment undertaken by the agents of the State Governments in the village or by co-operatives could be performed more effectively by the panchayat. These would include village defence, village sanitation, distribution of seeds and advancing of loans. The members of the panchayat would know the financial position of the villager better than a rural credit co-operative located at a distance; the panchayat could charge a small commission for arranging of the loan;

and if the panchayat, as a whole, could not furnish the necessary security to the Government in respect of the money advanced, one or two villages with requisite financial assets might do so. Similarly, the distribution of seeds and fertilisers could be made quicker and cheaper through the agency of the panchayat. The organisation of local defence, through village young men by the panchayat, would not only meet the growing concern among the educated people about safety of life in villages but also serve as a training ground in citizenship for villagers. The village panchayat could also, with advantage, make available to the villagers model plans for building houses and improving farm productivity. The panchayat might even charge a small fee for each of the services it rendered to villagers.

The panchayat should divide its work among its committees and groups, each committee or group being in charge of certain functions, e.g., a committee on development, a committee on co-operatives, a committee on civic amenities, a committee on village defence, etc. The work of these committees should be co-ordinated at the panchayat level. Such a scheme of work would make for both specialisation and co-ordination.

There were many practical difficulties in raising new taxes by panchayats; a more practicable method would be for the State Governments to make a contribution to the panchayat resources on some *per capita* basis or on the basis of matching grants for specific tasks or functions. Panchayats should endeavour to increase their resources through fees and rates on services or facilities afforded by them, e.g., village fairs, etc.

As regards the intermediate level at which a democratic body should be set up, Shri Bhalla considered it unwise to disturb the existing administrative units for purposes of creating a homogeneous intermediate area with necessary

resources. The Sub-Divisional Officer should preferably live at the Tehsil headquarters; this would enable him to pay more attention to rural problems and also make him more accessible to villagers. The District Advisory Council or Committee should generally be presided over by a public man of outstanding ability and integrity, if such a one was available; otherwise by the District Magistrate. Similarly, the Advisory Committee at the Tehsil level should preferably be presided over by a non-official; failing him, by the Sub-Divisional Officer. The members of the Tehsil Advisory Bodies should be chosen by indirect election; the membership should be sufficiently large to discourage party factions; there was also an urgent need for streamlining the existing administrative agencies in the District, the Tehsil and the village and for controlling the increase in the field staff and integrating their functions.

Shri G.M. Sinha observed that the village, with rare exceptions, should be the basic unit of democratic organisation; if more than one village was covered, the spirit of competition would creep in and unity of purpose and homogeneity of interests would be destroyed. The Constitution itself recognised the village panchayat as the basic unit of community life in India. The panchayats should be given all the civic and development functions; the popular bodies at the intermediate level should be only advisory in character and there should be an autonomous democratic institution at the district level. The experiment with *Jan Padas* had failed due to the smallness of their size; a democratic institution at the district level alone could hope to command all the necessary human and material resources.

On the question of local finance, *Shri Sinha* thought that there was little scope for levying of new taxes. Only about seven per cent of the total State revenues at present accrued to local bodies; the percentage in some foreign countries was considerably higher. In some of the European countries, there was nothing like district administration

as in India. The inadequacy of finance was the real drawback of the local government in the country; without finance local bodies could hardly undertake a big span of activity. The solution lay in the sharing of revenues between the local bodies and the State and Central Governments; the sharing might take the form of grants-in-aid or sharing of taxes on the lines of sharing of excise duties between Central and State Governments. There was equally an urgent need for the Central Government to tackle all essential questions of local self-government on an all-India basis. A number of committees and conferences had already reported on questions of reorganisation of local self-government; what was urgently needed was the drawing up of a clear-cut and precise programme of action by the State and Central Governments in the matter.

Shri B.A. Bambawale thought that the need for democratic decentralisation was urgent but its exact nature and form should be left to be determined by individual State Governments, in particular the question of the intermediate level of popular bodies. In Bombay, the posts of Commissioners had been revived and there were three advisory bodies at the level of the Division, namely the Development Council, the Village Panchayat Council and the National Savings Council. Several committees had already reported on the problems of the organisation and finance of local institutions and it was time for formulation of concrete and clear-cut proposals by State Governments. The resources of the local bodies were limited and they could be hardly blamed for their failure. It was not enough to offer solutions; these solutions must be practicable. For instance, the 30 per cent of the land revenue which was earmarked for the panchayat in the Bombay State was actually made available to it just before the end of the year. The question of timely execution of village projects by the panchayat was linked up with the broader issue of quicker decisions and less delays in administration. The Indian Institute of

Public Administration might do well to appoint a small committee to go into the basic questions of administrative delays.

The *Chairman* pointed out that the speakers should confine themselves to the four aspects of the problem mentioned by *Prof. D.G. Karve* while initiating the discussion.

Prof. Bodh Raj Sharma remarked that the system of elections to panchayats should be done away with in the interest of avoiding party factions and indecisiveness. The post of the President of the panchayat should be held by heads of village families by *rotation*; there should be a qualifying age for appointment as the *Sarpanch* and also for *Panchs*. The panchayat should be vested with all civic, economic, developmental and regulatory functions to enable it to earn the respect of villagers and to become a truly effective popular agency. It should also be given judicial and police powers. The panchayat should not hesitate to tap new resources or impose taxes like those on marriage, death of a wealthy person, the birth of a son to a rich villager, etc. For performing the functions falling within the spheres of the Central or the State Governments, it should be duly reimbursed, e.g., 25 per cent or 30 per cent for collection of land revenue.

Dr. P.N. Banerjee felt that panchayats had succeeded in some parts of the country and failed in other parts. For preserving the democratic system of government in the country it was essential that the members of the panchayat were chosen by direct election and not by indirect election. For eliminating the difficulties impeding the development of panchayats and for placing them on a sound and stable footing, the two things needed most were a proper system of rural education and the allocation of an appropriate proportion of the revenues of the State Government to panchayats.

Prof. Sri Ram Sharma pointed out that the traditional concept of panchayats as self-contained village republics was no longer valid in the changed social and economic conditions. The development of means of communication and transport and industrialisation had made the village dependent upon other parts of the country not only in economic but also in social and political matters. The major policies in most of the spheres were decided not within the village but in State and national legislatures and administrations. The panchayat was thus mostly concerned with the execution of national policies with such modifications as were necessary to suit the needs of its particular village. Viewed in this broader context, the problem of local finance was primarily not so much of raising local revenue as one of securing appropriate grants-in-aid or share in general revenues of the Central and State Governments on the basis of the actual needs of the village and not on the criteria of its resources. Only thus could the problem of the development of villages through the agency of panchayats be solved in a realistic manner.

Shri Gajadhar Singh emphasised that considerations of safeguarding democracy necessitated that the village should generally be treated as the basic unit of democratic organisation; in rare cases where it has less than 150 persons, it might be grouped with another village or villages within a distance of a mile or a mile and a half. For effective functioning of the panchayat as a democratic institution, it was essential that the election of members should be by secret ballot, its membership should not be too large to make it unwieldy and the term of the panchayat should be about five years or so in order to evoke proper interest on the part of the rank and file of villagers. The president of the panchayat should not be elected by the general body of members but by the members of the panchayat; and a 'no confidence' motion should not be allowed to be brought before the panchayat against him unless the District Panchayat

Officer was satisfied with the charge made against the president. Common-sense rather than general education was an essential qualification for success as a member of the panchayat. The panchayat should be vested with judicial functions as in the former PEPSU State. In other words, every case of the village, whether civil, revenue or criminal, should first go to the village panchayat which should act as a Conciliation Board. If it was unable to decide the matter within the prescribed limit of time, the dispute should be referred to the *Adalat* Panchayat meant for two or three villages. Equally important for the successful functioning of panchayats was the attitude of the government officials towards them. There was considerable truth in the general feeling that the government servants were mostly not favourably inclined towards the development of the panchayat as a democratic village institution, because it would not help them in getting some illegal remuneration. There might be other reasons also for such a discouraging attitude on the part of civil servants. It was therefore important that the election to the intermediate popular bodies should not be direct but indirect, thus leaving little scope for the exercise of influence by government officials.

Shri B.S. Suryanarayana urged the need for fuller consideration of the detailed procedures of the working of panchayats for ensuring their effective functioning. It was necessary to formulate a concrete, detailed and phased programme of action for carrying out various functions entrusted to the panchayat in each village; the progress might be slow and gradual but it must be solid.

Shri A.R. Tyagi emphasised that democratic, decentralised local administration in India must be built upon the indigenous system of local self-government with suitable modifications to suit the altered socio-economic conditions. The system of local self-government instituted since the time of Lord Ripon had not succeeded, as it was a graft of the British system; the transplantation of the institutions of

community projects and national extension service, based on American concepts, was also not likely to yield any stable and effective results, being an imposition from the above. The old pattern of rural life in India had broken up and the new pattern had still to be evolved. The solution of the ills of local self-government lay in the revival of the indigenous system of local administration with suitable alterations to meet the requirements of modern times.

The *Chairman (Shri Gurmukh Nihal Singh)*, summing up the discussion, underlined the importance of preserving and developing democratic institutions in rural areas as the bulwark of democracy. A good deal of further experimentation might be necessary before a stable and balanced pattern of democratic local administration could be evolved and it was therefore essential to keep a constant watch over the development and progress of popular bodies in the village, the tehsil and the district.

Second Session
(April 5, 1958 : 2.30 p.m.)

II

THE ADMINISTRATIVE PROBLEMS OF STATE ENTERPRISES

The Chairman (Shri Manubhai Shah), Minister for Industry, Government of India, initiating the discussion, stated that the administrative problems of State enterprises in India had come to acquire a new significance in the context of the growing importance of the public sector in the national economy. The pace of economic development of the country during the next few decades would depend upon the progress of the public sector. The State's role in the development of the various aspects of public life—political, social and economic—was being increasingly recognised in all countries and the emphasis placed on the public sector in India was also a symbol of similar acceptance. The economic and social structure of any society was determined largely by the modes of production which it had at its disposal at a particular stage of development. The problem of State enterprises therefore differed in under-developed countries from that of highly-developed States of the West. In under-developed countries of South East Asia, with their newly-won political freedom, there was a sense of hesitation and a lack of boldness, courage and enthusiasm in breaking new ground. There did not exist a full and deep awareness of the complexity and magnitude of the problem—neither in Parliament, nor in its Public Accounts and Estimates Committees, nor in the Secretariats of the Central and State Governments.

The administrative problems of State enterprises in India, considered in the perspective of their economic growth, required to be dealt with differently at the different stages of their development and in the light of their different economic characteristics. First, of all, there was a promotional stage which required planning and consultation both with other departments of government and with outside industrial organisations. The administrative problems of the promotional stage could be tackled more effectively under the system of departmental management than any other; promotional problems required not only quick decisions, supported by financial powers, but also alterations of attitudes and approaches which were best facilitated through State agencies. The next stage was what might be called a teething phase, covering the lag between the initial establishment of the enterprise and its switch-over to its regular schedule of production. The second stage called for a somewhat different approach. The form of departmental management, with a controlling board composed mostly of government officials, was perhaps most appropriate for this stage; the presence of senior officials on the controlling board was expected to be a great help to the enterprise in solving its numerous teething troubles before the optimum conditions of production were reached. Except in those few enterprises which essentially had started with a poor or unwholesome background and tradition, it would be beneficial to have some non-officials on the board of directors to enable it to have at its disposal information and experience of the private sector. Lastly, there was the third stage when the enterprise was faced with the problem of expansion of the existing pattern of production or its diversification or both. Such a stage of development called for maximum operational autonomy within the framework of broad policies laid down by the Department. As with the private enterprise, the public enterprise could not be expected to hold its ground and expand its activities unless it was

prepared to undertake certain business risks which from the angle of financial prudence as traditionally practised in the government might look to be unsound. For this stage the Board of Directors has to be predominantly non-official, with men of experience drawn from all walks of life, including business industry. Whether the requirements of autonomy necessitated a 'corporation' or a 'company' form of organisation would depend upon the economic nature of the enterprise, its competitive position and similar other factors.

The broad questions of parliamentary control and autonomy of public enterprises must thus be necessarily viewed in the context of the nature and the stage of development of a particular enterprise. Parliament was more concerned about the results than forms and procedures; it was not dogmatic about organisational patterns and methods of work so far as their results were encouraging. The association of non-officials with the Board of Directors would provide a mechanism for scrutiny and vigilance; it would be a useful instrument for bringing public opinion to bear on the working of State enterprises. In any enterprise, in the ultimate analysis, it was the personal factor which counted; the man on-the-spot knew better where the shoe pinched. The higher up the executive, the more open-mindedness and respect he should have towards the man who was actually responsible for carrying out a task or piece of work. If the Secretary of the Department felt that the proposal of the Managing Director of the enterprise was not sound he should consult the whole Board of Directors rather than pass judgment, sitting at a distance and isolated from the realities of the work situation. Nothing would be lost if a person with a sense of responsibility who represented labour was included in the Board of Directors. A basic element of autonomy of State enterprises was respecting of the judgment of officers on-the-spot both by the top management of the enterprise and the Secretariat Department controlling it.

Prof. V.K.N. Menon, the Director of the Institute, said that as Shri S.S. Khera, the Director of the Seminar held on the subject in December 1957, was out of station, Prof. D.G. Karve would explain the approach followed by the Seminar in its deliberations.

Prof. D.G. Karve stated that the discussions at the Seminar were characterised by a non-doctrinaire approach to the numerous problems, such as parliamentary control, audit, personnel relations, and autonomy. In undertaking certain industrial enterprises, the State was attempting to turn out those essential products and services which the private sector could not or would not produce. The approach underlying the public sector was pragmatic and not ideological; the administrative problems of these enterprises therefore had to be considered in a functional perspective. Each enterprise obviously took some time to grow to a stage of normalcy, and despite certain variations, the different factors which made for success of enterprises could be picked out. The concepts of autonomy and parliamentary control were relative to the nature and functions of the enterprise and its stage of development. Unless full and minute details were worked out, separately for each enterprise, in regard to matters for which it must have autonomy, the interplay of forces of centralisation and decentralisation was likely to create a situation which had the worst of the both. Once authority and responsibility had been vested with an enterprise by law, nothing should be done, as a matter of policy or procedure, which would take them away. As with autonomy, so with personnel. The right type of personnel had to be recruited from all possible sources; they had further to be developed into efficient, responsible and forward-looking business executives.

Shri Sri Ram pointed out that the success of an enterprise depended very much upon the quality of the Chairman of the Board of Directors, his knowledge, experience and

independence of approach. A competent Chairman would carry the Board with him. The Board might have on it a representative each of the controlling department and the Finance Department and even of some other departments as the decisions taken in a public enterprise were likely to effect and be effected by decisions taken in another enterprise or department. It was not of much consequence whether there was a majority of officials or non-officials; some non-officials should, however, be there to bring in knowledge and experience of private enterprise and a freshness of outlook. The Managing Director should be appointed on the recommendations of the Board of Directors and he should have control over all employees of the concern. Parliament occupied in the case of State enterprises a position similar to that of the shareholders of a company; it should be able to exercise the same rights of control and vigilance which were exercised by shareholders of a private concern. There might be three sets of audits—an internal audit, audit by a Chartered Accountant and a re-check by the Auditor-General. Audit, however, should be confined to its proper sphere and should not interfere into matters like the strength of staff, rates of pay, etc. No hard and fast rules could be laid down in regard to appointment of personnel; the staff should be recruited by the enterprise itself and not through the public service commission or other governmental channels.

Shri S. Ratnam said that in addition to the three stages mentioned by the Chairman, it would be advantageous to recognise another stage intervening between, namely the constructional stage. The advantages of departmental management of the enterprise could be secured at this stage by constituting the Board of Directors in such a way as to consist of a number of senior Secretariat officials along with a few non-officials. The presence of Secretariat officials would facilitate inter-departmental discussions and the expeditious issue of Governmental sanctions which would be

frequently required at this stage. The experience of Control Boards set up to implement the irrigation and power projects had proved that the presence of senior Secretariat officials on such Boards facilitated expeditious construction of the project by cutting out devious processes of file handling. These Control Boards had also been able to speedily recruit competent technical personnel because the Boards were in a position to take on-the-spot decisions about emoluments and terms of service of applicants. When the constructional stage of a project passed into the production stage, the representation of Secretariat elements might be withdrawn or lowered. Conventions had already been set up and these should be more rigidly adhered to in the sense that autonomous Corporations should not be questioned on the details of their day-to-day working. It would be worthwhile considering also whether a concord should not be reached with the Comptroller and Auditor-General as to the scope and content of the audit criticisms that were to be raised for the attention of Government and the Parliament. *Shri Ratnam* further thought that it would considerably help and advance freedom of management of State enterprises if audit would accept in the final analysis as satisfactory the considered view of a Board of Directors that any expenditure under audit question was justified by the circumstances prevailing at the time such expenditure was incurred. Of course this convention could only apply to expenditure items of small magnitude and in respect of which no *mala fides* could reasonably be suspected.

Shri T.P. Bhalla observed that public enterprises differed from private industry in some essential respects. The chief incentive in State enterprises was not the motive of profit, though the factor of profits could not be ignored. State enterprises had also some social functions; and the people whose representatives sat in Parliament were not exactly in the same position as share-holders of a private company. While the sovereignty of Parliament to control

public enterprises was above question, Parliament had not the time nor technical competence to go into the details of the working of State enterprises. Closely related was the question of the degree of control to be exercised by the Minister or the Secretary of the controlling department. The Minister and his Secretary should not, as a rule, interfere in the execution of policies; they should confine themselves to the framing of broad policies within the framework of which the enterprise should be free to conduct itself. Unless the Secretariat kept itself aloof from the execution of policies it could not take a detached view of things and advise the Minister in an objective manner.

The Board of Directors should have on it non-officials who should not have any direct or indirect personal interest in the enterprise to ensure impartiality in expression of views and opinions. There should also be a Board of Management, consisting of various heads of departments including the financial adviser and the chief personnel officer and headed by the Managing Director. Labour might be represented on this Board as also at other levels of management. Representation of labour at lower levels would be a great help in eliciting advice and suggestions in regard to improvement of productive processes and working conditions. As labour was an important contributor to the success of the enterprise, labour participation should be welcome in the interest of higher productivity. The financial and administrative procedures which were in vogue in government departments were hardly suited to the processes of quick and prompt decision-making and action so essential for the success of a public enterprise of an industrial character. Financial control and audit should not, therefore, loose themselves in petty details. The main consideration should be whether the enterprise was producing the money's worth or not. Therefore, while the financial adviser should be subordinate to the Managing Director, he should have a right to approach the Minister directly in

case of gross extravagance, corruption or mismanagement and to ask for a proper enquiry.

The problem of staffing State enterprises called for both short-term and long-term solutions. The administrative services had already been heavily drawn upon and the steps under way to create a central management pool should be expedited. The long-term needs of personnel should be met by recruitment on a career basis through a special public service commission—a body specially suited to judge and select industrial and commercial personnel. The personnel so selected would need both theoretical and practical training to turn them out into responsible and competent executives with professional standards and traditions of their own.

Shri S.B. Bapat wished to remove certain fallacies so commonly prevalent in regard to autonomy in the management of State enterprises. *First*, in matters of control and autonomy of public enterprises, more than in any other field of administration, there were no categoricals. Autonomy in its fullest sense was out of the question, considering that much of what an enterprise did had repercussions on other branches of the public sector itself as well as on other spheres of national life including the private sector. Autonomy must again be related to the nature of the activities of the enterprise and its stage of development; the exact degree of autonomy might vary even for the same stage with different enterprises. Public enterprises could thus at the most be said to be semi-autonomous in character. *Secondly*, it was hard to lay down any general rules concerning the respective spheres of autonomy and control for all State enterprises. The problem was really not one of principle but of practice; it was ultimately a question of evolving proper work-ways in regard to the various aspects of the enterprise. While the Government must have the power to call for any information from the enterprise it would be too much to expect that nothing

should be done in the enterprise without informing the Government about it. Nor was the proposition practicable that everything that the government had to communicate to the enterprise should be put into the form of a written directive. Some flexibility in these matters was essential. It was equally important to ensure that the proposals of the enterprise should not pass down into limb of the departmental Secretariat and dealt with at too low a level or be decided upon by people who were not aware of the practical issues involved. These and other problems of control and of communication, between the enterprise and the department, could be best thrashed out through a regular arrangement for exchange of views across the table between the Managing Director on the one hand and the Minister and his senior most advisers on the other. Similarly, the controversy about the under-representation of non-official elements on the Board of Directors could be best resolved in the light of the purpose of such representation and the attitude of the representatives. Government representatives on the Board of Directors had a two-fold role—to put forward the departmental point of view to the Board and to explain the Board's point of view to the department. The existing arrangements did not work well as the departmental representatives either did not get the memoranda well in time for study or did not take a decisive brief in the matter from the department. Departmental representation, if worked in the proper spirit, would facilitate speedy decisions and prompt action.

Shri Parimal Y. Mehta urged that adequate attention should be paid to four important aspects of the management of State enterprises—efficiency, business methods of work, decentralisation and delegation, and training of personnel. Efficiency was both a horizontal and vertical concept; it depended equally on relations between workers or groups of workers. The enterprises must be run on business principle and not crippled by traditional departmental procedures

and work-ways. The personnel responsible for various aspects of production should have adequate powers to carry out their tasks with a sense of impartiality, justice and fair-play and to enforce discipline adequately. The concentration of power in the upper reaches of the hierarchy in matters of policy should be balanced by adequate decentralisation and delegation down the line. For developing the skill and effectiveness of personnel, the training programme should be a continuous process and should cover all levels—top, middle and bottom.

Shri K.N. Kaul pointed out that a dogmatic approach to the administrative problems of State enterprises could hardly deliver the goods. For instance, while non-officials were needed to be on the Board of Directors to have the benefit of the rich experience and balanced judgment of the private enterprise, the Government representatives on the Board brought with them a trained mind and habits of objective and precise thinking. The various development stages outlined by the Chairman, *Shri Manubhai Shah*, were obviously only illustrative and not exhaustive; no uniform or rigid patterns of organisation, autonomy, or methods of work could be laid down even for the same stage of development for different public enterprises. Similarly one could not afford to be too doctrinaire about the method of recruitment of personnel. Restricting recruitment to civil servants might not meet all the needs but the material available in the open market might not also always be satisfactory. The problem of personnel, as also others, required a pragmatic approach.

Prof. Sri Ram Sharma agreed with *Shri Bapat* that the concept of autonomy of State enterprises, as commonly understood, should be abandoned, considering the interdependence of different government enterprises and departments and of the different sectors of the national economy. As Parliament was ultimately supreme and represented the citizens who really provided the finance, the State

enterprises need not feel touchy about the control or criticism attempted by Government or Parliament. The form of the enterprise was not important; the spirit in which it was conducted was all that mattered. There was hardly any justification in the existing practice of having a large number of representatives of Government departments on the Boards of Directors. If they represented their respective departments it was not understandable why they were reluctant to enter into commitments on behalf of their departments nor was there the need for so many of them. And if they were on the Boards in their individual capacity, the whole purpose of their being nominated as the representatives of the Government departments was lost. The policy of the Government in nominating departmental representatives on the Boards of Directors required a reconsideration. Here it was important to distinguish between the English idea and the American concept of the Board of Directors. In England, the Directors on the Board were not technical or functional specialists in business or industry, but persons from various walks of national life, e.g., lawyers, engineers, social scientists, public men, etc. In the United States of America, on the other hand, the Directors on the Board were nominees of the President and were responsible for a particular function of the enterprise. The Board of Directors in a private enterprise in India did not consist of many experts in business or industry and there was no special reason why the Board of Directors in a public enterprise should be composed of persons having knowledge of its particular business or an aspect of it. The main object of the Board of Directors should be to direct the organisation and it should have on it fairly experienced and competent persons drawn from business, finance and industry, retired officials from the public services, leaders of labour and public opinion, etc. The actual management of the enterprises should be left to another Board—a Board of Management, headed by the Managing Director.

The Chairman (Shri Manubhai Shah) thanked the participants in the discussion for their valuable contributions.

Prof. V.K.N. Menon, the Director of the Institute, expressed the gratitude of the Institute to the Chairmen of the two sessions of the Conference and to the members who had taken part in the discussions.

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