

## **Module 12 : PUBLIC UNDERTAKINGS**

**CHAPTER - 1:                FORMS OF PUBLIC UNDERTAKINGS**

**CHAPTER- 2:                MANAGEMNET OF PUBLIC  
UNDERTAKINGS**

**CHAPTER- 3:                CONTROL OF PUBLIC UNDERTAKINGS**

- A.     MINISTERIAL CONTROL**
- B.     PARLIAMENTARY CONTROL**
- C.     CONTROL THROUGH OTHER AGENCIES**

**CHAPTER- 4:                PROBLEMS OF PUBLIC UNDERTAKINGS**

- A.     PROBLEMS OF OBJECTIVES**
- B.     AUTONOMY OF PUBLIC UNDERTAKINGS**
- C.     APPOIINTMENT OF THE BOARD OF  
DIRECTORS**
- D.     PROBLEMS OF HUMAN RESOURCES**
- E.     OPERATIONAL PROBLEMS**

# Chapter-I

## Forms of Public Undertakings

The Industrial Policy Resolutions of 1948 and 1956 envisaged a high role of Public Sector Undertakings in the planned economic development of the country. Both these resolutions visualized a mixed economy for India in which the Public Sector was expected to reach commanding heights. With the passage of time, the Public Undertakings have made great strides in India.

The need for setting up the Public Sector Undertakings arises because there is a large field of activity in which the private enterprises is not forthcoming or does not have enough resources to participate. There are some other undertakings which the State Government has to keep under its direct control for reasons of security or strategic importance. Obviously, the Defence Undertakings come in the first category and the basic industries come under the second. Earlier, most of the economic activity under the Government was carried out in the departmental undertakings. Since the Government has entered the economic and business field in a big way, administrative innovations have become necessary. A number of Government Companies and Public Corporations have been formed to undertake the economic and business activity on behalf of the Government. We study here these three forms of Government Undertakings namely; Departmental Undertakings, Government Companies and Public Corporations and their comparative merits and demerits.

### **A. Departmental undertakings**

Before independence, the Government participation in manufacturing and other organized business was rather limited. Whatever little business the Government did was conducted by the departments and were run on the same lines. Many of them are still run as Departmental Undertakings, for example, Railways, Post & Telegraphs, Defence, Production Units, various Workshops, All India Radio, Doordarshan etc.

### ***Main Features***

- (i) These Undertakings are financed by annual appropriations from the treasury. Similarly, all their receipts are also credited into the treasury.
- (ii) Their financial operations are subject to the budget, accounting and audit controls as applicable to the Government activities.
- (iii) Their permanent employees are called civil servants and their conditions of service are governed by the rules of the Government as applicable to other Government servants.
- (iv) These enterprises do not have a separate entity of their own, but, form part of the Government. They can be used only by following the procedure prescribed for filing suits against the Government.

### ***Advantages***

The main advantages of the Departmental type of business undertakings are:

- (i) It is well-known form of Government Organization and does not require much innovation. The standard patterns of Government behavior are applicable to it.
- (ii) The staffing does not pose much of a problem as there are set of rules and regulations for recruitment and control of public servants.
- (iii) It assures maximum degree of control by the Government.
- (iv) This form is mostly suitable for sensitive type of industries like the Ordnance Factories, etc.
- (v) Any expenditure requires sanction from competent authority. This ensures better security to Government money.

### ***Disadvantages***

The main disadvantages of the system are:

- (i) There is too much of centralization and very often not enough powers are delegated to lower formation to enable them to perform their levels efficiently.

- (ii) The rules and procedures are very rigid and do not leave room for flexibility which a commercial or trade organization requires.
- (iii) The financial arrangements remain unsatisfactory as the money comes from the annual budget and lapses at the end of the financial year. This results in discontinuity in business and trading operations which is very detrimental to the functioning of the undertaking.
- (iv) Departmental methods of sale and purchase are also slow and time-consuming.
- (v) It is subjected to a very thorough questioning and control by the Parliament. This results in loss of initiative on the part of the employees of the Undertakings.
- (vi) The profits of the undertakings cannot be used for its own business. It goes to the relief of general taxation.
- (vii) Even if some one shows an enterprise, the Finance may veto its proposal.

## **B. Government Companies**

Most of the big private business is carried out by organizations known as Private Limited Companies or Public Limited Companies. They are the forms of joint stock companies in which a number of participants pool their resources to provide the share capital. This is a joint form of ownership in which the Government can also participate. The Companies Act, 1956 provides for a distinct category for Government Companies in which the controlling shares (more than 50%) belong to the Government. In case the Government wants to run a purely governmental undertaking, it can adopt the form of Private Limited Company. When it is intended to invite subscriptions from the Public, a Public Limited Company may be floated by the Government. The main characteristics of the Government Companies are:

### ***Main features***

- (i) They have most of the features of a Private Limited Company in which whole or more than 50% of the stock is held by the Government.

- (ii) It is body corporate created under a general law namely the Companies Act, 1956. It can sue and be sued, enter into contract and acquire property in its own name.
- (iii) All the Directors or a majority of them are appointed by the Government depending upon the extent of the share of the Government in the capital stock.
- (iv) It is created by an executive decision of the Government without the Parliament's specific approval.
- (v) Its article and Memorandum of Association though conforming to the Company's Act, are drawn up and are revisable by the Government.
- (vi) It is generally exempted from the personnel, budgeting, accounting and audit laws, rules and procedures applicable to Government Departments.
- (vii) Majority of this share capital is obtained from the Government. In case of Private Limited Government Company, the entire share capital is contributed by the Government. In addition, the income of the Company is derived through its revenues from sales of goods and services as well as from the financial institutions. It does not have to deposit its revenues into Government treasuries nor does it have to draw its money from the treasury.
- (viii) Its employees are not civil servants except a few who are on deputation to these companies.

### ***Advantages***

The main advantages of the Company forms of organizations are:

- (i) This is the easiest form of public undertaking to set up. Such companies do not need the sanction of the legislature and can be set up by executive resolution.
- (ii) It offers autonomy in administration with necessary freedom in financial and personnel matters.
- (iii) In this form of organization, the Government can associate private enterprise, national or foreign. This may bring additional capital for investment.
- (iv) Apart from the above advantages, this type of organization also provides for adequate control by the Government.

### ***Disadvantages***

The limitations and disadvantages of the Company form of organization are:

- (i) An ESCAP ((Economic and Social Council for Asia and the Pacific) seminar on organizations and administration or public enterprises held in Rangoon called it a vague and extremely difficult form of organization to control. Such undertakings dilute the control of Parliament over public money. One of the Comptroller and Auditors General of India went to the extent of calling this form of organization as a fraud on the Companies Act and the Constitution.
- (ii) In the company form of public undertaking all or most of the functions normally vested in the share holders and the management reverts back to the Government. This is so because the Government is either the sole owner of all the stock or has a controlling interest in it. It has full freedom to appoint or dismiss or change the management.
- (iii) The flexibility and autonomy of this type of organization is often abused by the Government.
- (iv) Undefined and unrestricted powers exercised by the Government department responsible for the public undertaking gives it a lot of control over these companies.
- (v) This form dilutes the control of the Parliament over the Public Enterprises.

### **C. Public Corporations**

A new form of organised public enterprises that has evolved is a public corporation. It may be defined as a legal entity created by the Government, but exterior to the Government Organization, and hence financially independent for the purpose of carrying on the specified activities in the manner prescribed in the law creating it. Different scholars have defined public corporations differently. Without going into these definitions here, we would indicate the essential features of the public corporation. Some of the essential features of a public corporation are:

### ***Main Features***

- (i) A Public Corporation is owned by the Government.
- (ii) It is created by a special law defining its objects, powers, duties and privileges and prescribing the form of management and its relations with the Government Departments.
- (iii) It is a body corporate and has a separate entity for legal purposes. It can sue and be sued, enter into contracts and acquire property in this own name.
- (iv) It is generally not subject to the budget, accounting and audit procedures applicable to the Government Departments. All these are governed by the provisions of the statute creating the corporation.
- (v) Except for some officers taken from the Government on deputation, the employees of Pubic Corporation are not civil servants and therefore are not governed by the service conditions applicable to Government servants.
- (vi) The Government provides for the capital base of the corporation. However, Corporation can raise funds from various sources like the banks and through revenues derived from the sale of goods and services. It can use its revenues for business purposes and does not have to deposit them into the treasury.

It would be clear from these characteristics that the form of Public Corporation is almost similar to that of Government Companies. The main difference appears to be in the mode of their formation. While the Corporation is created by an Act of Parliament, a Public Company is created by a resolution of the Government and registered under the Companies Act, 1956.

### ***Advantages***

The main advantages of the Public Corporation forms of organizations are:

- (i) A Public Corporation has proved to be a very valuable instrument for social control of economic life. It provides the necessary flexibility in the business and economic operations of

the government. It is not bogged down by the rigid procedures of a Departmental Undertaking.

- (ii) To a certain extent Public Corporation is shielded from political hands, treasury control and procedures. One of the great advantages of this form of organization is that the statute setting up the Corporation can be adjusted to suit the type of function it is supposed to perform. Yet it is not so pliable that the Government can misuse it easily.
- (iii) They can hire the necessary personnel from the market without undergoing the rigid procedures of the Government.

### ***Disadvantages***

The disadvantages and limitations of the Corporation form of organizations are:

- (i) That the so called autonomy of the public Corporation is only a myth. It is constantly attacked by the political and administrative influences from the Ministry. No help is available from the statute as the control exercised by the Minister is informal.
- (ii) In so far as this form of organization takes the Corporation a little away from the Parliamentary Control it places significant political power in the hands of a small unrepresentative group.

### ***Comparison***

Having studied the strong and weak points of the different forms of the Public Undertakings, we may now turn to the most important question as to which form is more suitable for conducting the business, manufacturing and trading operations of the government. The question has been examined by various committees and commissions.

The first Industrial Policy Resolution of 1948 envisaged that the management of the State enterprises will, as a rule be through the medium of Public Corporations under statutory control of the Central Government. This categorical statement of the Government was not modified in the second Industrial Policy Resolution of 1956 or subsequent declarations of the Government. Its use has been confined to the organizations or enterprises in certain fields like insurance,

transport and electricity. In practice, the Central as well as the State Governments have tended to the Company form of organization for conducting Government business.

The matter was also examined by A.D. Gorewala (1951) in his report on the efficient conduct of state Enterprises. He observed that the departmental form of organization was not suitable because it did not provide for the autonomy necessary for the conduct of business. He felt that a departmental form may be used, in exceptional cases, where the need for security, strategic importance etc. so demand. Such cases should not be many. Mr. Gorewala favored the company form for sustainability commercial functions because it creates flexibility. According to him, Corporation could be used where the undertaking was to discharge, what in fact were, the extensions of Government functions. For example, irrigation, hydro-electric projects and broadcasting etc. The first **Five Year Plan** (1952) also recommended the adoption of the company form.

The Estimates Committee (2<sup>nd</sup> Lok Sabha) in its 18<sup>th</sup> Report (1960) observed that no well defined principles have been followed in determining the form of organization of Public undertakings. Haphazard decisions have been taken in setting up these undertakings. The Committee favored wholly owned Government Undertakings in the form of statutory corporations. They also argued that departmental undertakings are justified only for special reasons like defence, strategy or security. They also wanted company form of organizations to be used only for certain specific types of business. The Krishna Menon Committee also recommended that the corporation form of organization should be primarily used for setting up public undertakings.

The Government, however, decided in 1961, that the form of management of public undertaking should be determined by the requirement of each case. From the point of view of flexibility of operation, the company form of management should be preferable.

## ***Administrative Reforms Commission***

The Administrative Reforms Commission also examined this question in detail. They also agreed with the other Committees and Commissions in asserting that the departmental form of organizations was not suitable for conducting business operations except in certain strategic cases. Both the company form and the Public Corporation can provide the necessary flexibility and autonomy. The choice between the two will have to depend on the nature of undertaking, its importance, its magnitude of investment and the role that it is expected to play in the economic development, capital formation and provision of goods and services. The Articles of Association of a Company or the statute of a Corporation can provide for their autonomy and operational flexibility. The Company form gives greater freedom to the executive to determine the structure and autonomy of the undertakings and to decrease or increase the autonomy by revising the Articles of Association. The Corporation is however created by an Act of Parliament which cannot be so easily amended. Since the Public Corporation is created after a good deal of public debate, it has a greater sanctity than the Government Company. The Administrative Reforms Commission made no secret of its preference for the public Corporation as the instrument for running the business undertakings in the public sector. Finally the Commission recommended that:

- (i) For the manufacturing and industrial projects in public sector, the most suitable form of organization is statutory corporation.
- (ii) Promotional and developmental agencies should be set up as departmental undertakings or statutory corporations.
- (iii) The trading concerns of the Government or the ones which require private participation may be created as Government Company. This form can also be used when an existing private company is taken over by the Government.

## ***Conclusions***

On the basis of the above discussions, it would become clear that no particular form of organization can be said to be suitable for every

form of Government activity. The Government of India had, therefore, decided that:

- (i) for certain enterprises providing public utilities which are primarily intended to develop the basic infrastructure facilities, the statutory corporation form of management may be preferred;
- (ii) for other enterprises, including those operating in the monopolistic field but, where the commercial aspect is predominant, the present form of the Government company be more suitable;
- (iii) the departmental form of undertaking may be suitable only for strategic purposes.

The Government has thus shown its preference for the Public Company form or organization for carrying out the industrial or commercial activities in public sector.

## Chapter II

### Management of Public Undertakings

The management of Public Enterprises depends upon the type of its organization. In case of Departmental Undertakings, the management forms part of the general structure of the Government Departments. From top to bottom, the managers, executives, and lower functionaries are all government servants recruited according to the rigidly laid down recruitment rules of the Government. Their service conditions are also governed by general rules of the Government. The situation is, however, not so simple in case of the Public Undertakings. Since these undertakings, whether companies or corporations, are owned by the Government, their management is also appointed by the Government. The procedure for their appointment as well as their terms and conditions are however, not the same as those of the Departmental undertakings. These terms and conditions are decided by the statute setting up the corporation or by the Memorandum and Articles of Association of the Company.

#### A. **Levels of Management**

The management of the public corporations and the Companies may be divided into two parts:

- (i) Top Management;
- (ii) Operational Management.

#### ***Top Management***

The Board of Directors of Public Enterprises constitute the top management of the companies. In India, these bodies have both policy making and executive functions. The Boards have full powers to frame policies within their delegated financial and administrative authorities. This provides for a fair measure of managerial autonomy. The Government generally do not interfere in the day-to-day operational matter of enterprises. The exact working arrangement, however, depends upon the situation reflected by inter-personnel relationships and the personalities of the Chief Executive, the

Directors, the top officials in the administrative Ministry and the concerned Ministers.

### ***Board of Directors***

The Board of Directors may consist of full and part time members. There are, however, a large number of Public Enterprises where only the Chief Executive (Chairman-cum-Managing Director or Managing Director) is a full time director. All other directors are part time. These part time directors are expected to bring to bear professional inputs, provide guidance in regard to technical and policy matters and also represent interests such as Labour, consumer etc.

### ***Operational Management***

The Board of Directors, take major policy decisions which have to be carried out by the operational management. The Managing Director provides a link between the two. He sits on the Board of Directors and is also the head of the operational management. He exercises day to day control over the functions of the operational managers subject to the overall supervisions and control of the Board of Directors. The actual organization of the operational management depends upon the type of activities performed by the particular undertaking. For example the Management of a Marketing organization may be different from the one engaged in the production and sale of manufacturing goods. The service undertakings will have a third kind of organization. The set up is usually decided by the Board of Directors subject to some limitations, where the sanction of the Government is required for creation of certain level posts.

## **B. The Policies of Appointment**

### ***Top Management***

In the 50s and 60s, the top management of Public Sector in India was drawn mainly from the Government services both civil and defence comprising both journalists and specialists. The appointment of top posts of Chairman, Managing Director, Executive/Functional Directors and General Managers of Constituent units (in multi-unit-organizations) were made by the Administrative Ministries. The

administrative services, technical services like Railways, PWD, and Army Engineering service etc. provided the bulk of personnel for these appointments.

In 1958-59, the Government of India constituted the Industrial Management Pool of professional Managers to fill the senior and top posts in Public Sector undertakings. In 1965, a major policy requirement was effected in the selection procedures. A Screening Committee of Secretaries was constituted to assess the suitability of persons who had applied and wished to be considered for the top posts in Public Enterprises. In the case of applications from Government Servants, the Committee of Secretaries decided their suitability by screening their confidential reports, experiences and background. Interviews were held for those applying from the private sector. The Committee made empanelment of suitable persons to be appointed to the top management posts in the Public Undertakings. The empanelment was not made with reference to the suitability of a particular candidate for a particular post. It was more in nature of a general assessment. The panels drawn up by the Secretaries Committee was maintained by the BPE which served as the Secretariat of the Committee. The panel was only recommendatory. The Administrative Ministries could select people for appointment to the top posts from these panels. The system had the disadvantage that the qualifications of the persons selected did not match with the requirement of the job. Another feature of the system was that the panels contained excessive number of civil servants.

Some changes were effected in this system of empanelment in 1970. An Empanelment Board was set up. The composition of the selection committee was changed so as to include not only the Secretaries of the Public Sector Ministries but also Chairman of Public Enterprises. Secondly, it was decided that all persons whether they belong to the Government service, the public sector or the private sector would be interviewed by the Committee before they were empanelled.

### ***Public Enterprises Selection Board***

The most important policy initiative in selection of top management was taken in 1974. The Public Enterprises Selection Board (PESB) was set up for advising Government on appointment to top posts. The

top posts were restricted to those of Chairman, Managing Director and full time Executive/Functional Directors where Government was the appointing authority. All appointments below the Board level were brought within the purview of the companies. The empanelment system was abandoned. The Public Enterprises Selection Board was to make selections for specific vacancies, after careful definition of the job requirements and assessment of the suitability of the candidates. The secretariat of the Public Enterprises Selection Board was located in the BPE with a view to utilizing the data on the performance of Public Enterprises available there for the purpose of top management selections. The PESB was given the responsibility of not only selecting the top managers but also sharing proper successive planning and management development.

Along with the policy initiatives mentioned above, the Government also took several steps to professionalize the top management of the Public Undertakings. The attempts were, therefore, made to discourage the deputation of Administrative Officers from the Government to these undertakings. In 1969, the Government decided that the officers from the civil and defence services had to opt within two or three years to get absorbed in the concerned Public Undertaking or go back to their parent department. Along with this, several steps were taken to increase mobility among top management so as to provide adequate career advancing opportunities and introduce a healthy infusion of fresh blood from outside wherever necessary. Recently, the Government of India, has however, decided that a Government servant can join a public undertaking only after resigning his job. He does not have even a period of 2 or 3 years to decide about exercising this option to stay in the enterprise or not. This has completely done away with the system of deputation of Government servants to the public enterprises.

### ***Operational Management***

A lot of what has been said above for the top management also applies for the operational management. In the 50s and 60s a large number of officers at the middle and junior levels were also drawn from the Government. Probably, at that time there was such a paucity of trained personnel, that the Government service provided the only source of recruitment for these posts. In due course of time, the Public

enterprises have developed a cadre of their own officers. They can recruit new incumbents and provide for their promotion through well laid out career paths. The employment market has also responded to the need of the public sector undertakings. A number of trained personnel are now available for recruitment to the lower echelons of the public sector enterprises. The direct recruits to these positions can then be promoted within the organization. This obviates the need of the public sector enterprises to obtain their personnel from the Government. With the recent decision of the Government requiring the Government servants to resign before joining the public undertakings, the intake of Government servants into public undertakings has reduced to a trickle. However, this is a decision which can create problems when in a particular case the services of the Government servant may be required for providing some specialist service for the public corporations.

The recruitment and selection procedure for middle and junior level posts are now completely left to the Board of Directors of the concerned public undertaking. Some of them like the public sector banks have set up centralized recruitment boards while others have set up their own selection committee and boards depending upon the circumstances prevailing in the organization.

## Chapter – III

### Control of Public Undertakings

Although the public undertakings have been given a lot of autonomy in their functioning, the Government continues to be accountable for their performances to the Parliament and the people. The activities of these corporations are now quite diverse and their impact on the people is all pervasive. It is, therefore, essential that their functioning is kept under review by the Government and the Parliament who are ultimately responsible to the people for the performance of these public enterprises. The Government has, therefore devised various methods for exercising the necessary amount of control over the activities of the Government Undertakings. The nature and extent of control, of course, varies from undertaking to undertaking. A few significant points in this respect may be noted:

- (i) The control of the Ministry over the departmental undertakings is almost complete. The appointments of personnel, budget, business activities etc. of these Government undertakings are subject to close and constant review by the Government. They have to follow the detailed rules and procedures laid down by the Government in the conduct of their business.
- (ii) The control of the Government in respect of the Government companies and the public corporation is not so detailed. They enjoy a lot of autonomy in their day to day operations. The Government controls only the strategic divisions like making of new investments, introduction of new technology, pricing, etc. However, there is no significant difference in the control exercised by the Government in respect of Government companies and statutory corporations. The role played by the statute of the corporation in providing the control mechanism is matched by the Memorandum and Articles of Association in case of the Government Company.

Public control over public enterprises is exercised through three major agencies:

- (i) The Minister
- (ii) The Parliament
- (iii) Other Agencies.

#### A. **Ministerial Control**

The general principles of control by the Minister over the public undertakings are:

- (iii) To reserve such powers of the Government as are required by them to determine the question of policy.
- (iv) To see that the programmes of public enterprises conform to the National Development Plans.
- (v) To ensure that the enterprise is being run on commercial lines in accordance with the general policies of the Government.
- (vi) To ensure that the public sector managements run their business operations efficiently to achieve the objectives specifically assigned to them.

The Minister is not supposed to exercise day to day control over the management of the public undertakings. The Board of Directors of these undertakings is authorized to conduct the day to day business operations subject to the limitations of the general policy guidelines given by the Minister. However, to ensure that the general policies of the Government are followed and objectives of the organization achieved, the minister exercises some general administrative and financial control over these undertakings.

#### *Administrative Control by Minister*

In the administrative field, the Minister exercises the controlling powers over the public undertakings in the following manner:

- (i) The Government is empowered to appoint Chairman and the members of the Board of Directors and the Managing Director. Usually, the Minister appoints two or more Government servants as Directors on the Board to safeguard the public interest.

- (ii) Under certain conditions, the Government can remove from office any member of the Board of Directors including the Chairman or the Managing Director. This is in fact an exercise of power by the Minister on behalf of the Government who is the owner of the public undertakings.
- (vii) The Government can lay down the objectives to be achieved by the Corporation or the Company and issue necessary policy guidelines to achieve these objectives. This has been the cause of a lot of friction between the Government and the Public Undertakings. Usually the Government does not give written directions, but expects the management to comply with the wishes of the Minister conveyed informally.
- (viii) The Government can institute enquiries into the working of the Public undertakings.

### ***Financial Control by the Minister***

Apart from the administrative powers exercised by the Minister, he has a number of financial controls over the public undertakings. These controls are mentioned below:

- (i) The Minister is authorized to appoint the Financial Advisor on the Board of Directors of the public undertakings.
- (ii) The sanction of the Government is required by the public undertakings to:
  - (a) sanction capital expenditure above a certain limit;
  - (b) sanction variations in the capital estimates over 10%;
  - (c) sanction the principles for borrowings, investment, securities, distribution of profits etc.
- (iii) The approval of the Government is required regarding the form of accounts to be maintained by the public undertakings. Usually, the audit of the accounts is also conducted by the auditors approved by the Government.
- (iv) In respect of sensitive industries, Government often controls the fixation of prices of goods produced or services rendered by the undertaking. These matters are not always settled on economic grounds but by taking into consideration the public reactions to the policies pursued by the public undertakings.

In practice, however, the relationship between the Minister and the public undertakings has not always been smooth. The experience is

that the Ministers are exercising undue influence over the public undertakings without actually using their powers to issue directives. They in fact want to exercise, control without assuming responsibility for their directive. Even in the matters of appointment to the Board of Directors, the Ministers are not guided by the considerations of merit. They tend to appoint persons who are reliable and carry out the wishes of the Ministers without asking questions. It has been remarked by some, that this state of affairs leads neither to autonomy nor to proper control.

## **B. Parliamentary Control**

Public undertakings are owned by the State and are created by investment from public funds. The Parliament, as representative of the people, has a right to know whether the investment made in these undertakings is being used for the benefit of the people in the most efficient manner. Like the Minister, the Parliament also exercises greater control over the activities of the department undertakings than the activities of the public corporations and Government companies. The general principle followed in this respect is that the scrutiny of the Parliament should not extend to the matters of day to day administration of the public corporations and Government companies. This principle has been accepted and integrated in the rules framed by the Parliament and broad principles laid down by the Speaker of Lok Sabha on the “scope of admissibility” of questions and rules governing the working of the committee of public undertakings. However, it is difficult to interpret as to what the Parliament should not interfere. Since the Parliament as well as the Ministers is responsible to the people who raise many questions about the working of these undertakings, they have no option but to keep themselves fully informed of these enterprises. The Administrative Reforms Commission has suggested that only those matters which have a bearing on any special policy of the Government should be allowed to be raised in the Parliament. All others should be considered matters of day to day administration.

### ***Instrument of parliamentary control***

The parliament exercises its control over the Public Undertakings with the help of the following institutions:

- (i) Parliamentary questions.
- (ii) Various types of Debates.
- (iii) Annual Reports of the public undertakings.
- (iv) Parliamentary Committees.

Out of these four instruments, parliamentary committees need elaboration. They are discussed in detail in ensuing paras.

### ***Parliamentary Committees***

There are a number of Parliamentary Committees through which the Parliament can exercise control over the public undertakings. The important committees connected with the control over the Government corporations and companies are:

- (i) The Public Accounts Committee
- (ii) The Estimates Committee
- (iii) The Committee on Public Undertakings.

The Public Accounts Committee examines the Public Accounts by way of post mortem examination. The Estimates Committee could also not perform a very effective role because it is an over-worked body on account of a wide area falling under its jurisdiction. For this reason the Committee on Public Undertakings was set up to exercise the necessary control on public undertakings on behalf of the Parliament.

### ***Committee on Public Undertakings***

The Public Undertakings Committee was set up on 1<sup>st</sup> May, 1964. Before that the two Committees were exercising the necessary control on behalf of the Parliament.

It is a joint committee of both the Houses of Parliament. It has 15 members from the Lok Sabha and 7 from the Rajya Sabha elected by the concerned House every year from among its members according to the principle of proportionate representation by means of the single transferable vote. A Minister cannot be elected as a member. If a member of the Committee becomes Minister, he has to vacate his

membership. The term of officers is one year but there is no bar to re-election of the same members. One of the members is elected as the Chairman of the Committee. The significant functions of the Committee are:

- (i) To examine the reports and accounts of the enumerated undertakings.
- (ii) To examine the reports, if any, of the Comptroller and Auditor General of India on the Public Undertakings.
- (iii) To examine in the contest of autonomy and the efficiency of the public undertakings whether the affairs of the public undertakings are being conducted mainly in accordance with the sound business principles and accepted commercial policies.
- (iv) To perform such other functions as were vested in the Public Accounts Committee and Estimates Committee in relation to the Public Undertakings.

### **C. Control through other Agencies**

Besides the control exercised by the Minister and the Parliament, there are a number of other agencies which help the Government in exercising control over public enterprises. We will discuss here the role of the three institutions in this respect:

- (i) Audit conducted by the Comptroller and Auditor General
- (ii) The Bureau of Public Enterprises
- (iii) The Planning Commission

#### ***Audit***

The Comptroller and Auditor General of India is responsible for conducting or getting conducted the audit of departmental undertakings, Government companies and public corporations. In respect of departmental undertakings, he has to treat them like any other Government Department.

The Annual budgets of Government Companies are not subject to the vote by the Parliament. Only the total demand in respect of capital investment programmes contributed by the Government in the form of

share capital or loans are subject to Parliamentary vote. Under the Companies Act, 1956, the professional auditors are appointed by the Union Government on the advice of Comptroller and Auditor General of India who can also direct the manner in which the accounts of the public enterprises are to be audited.

The comments of the professional auditors along with the comments of the Comptroller and Auditor General of India are incorporated in the Annual Report submitted by the Comptroller and Auditor General of India to the Government. The report is ultimately placed before the Parliament. CAG also conducts a test audit of these companies. Even in respect of Government Corporations, the budget is not voted by the Parliament. Only the grants or loans made by the Government are voted. These corporations, however, have to maintain their accounts according to the provisions of the statute under which they are created. These statutes also provide for the audit of their accounts. Such provisions fall into three categories namely:

- (i) In respect of certain Corporations like Air India, DVC, IAC, the responsibility of audit has been entrusted to Comptroller and Auditor General of India.
- (ii) In respect of certain corporations like IFCL, CWC, etc. the audit is conducted by professional auditors who are private firms of chartered accountants. These auditors are appointed by the Central Government in consultation with Comptroller and Auditor General of India. The Comptroller and Auditor General of India may also conduct the supplementary audit and add his comments to the reports of the professional auditors.
- (iii) There are certain corporations like Reserve Bank of India, Life Insurance Corporation of India and Food Corporation of India for which the audit is conducted exclusively by the private firms of “Chartered Accountants”. Their audit reports are directly submitted to the Parliament without reference to the Comptroller and Auditor General of India.

The report of the Comptroller and Auditor General of India is very important document and provides a very effective instrument of Parliamentary control over public enterprises. In fact, this report is considered by the Public Accounts Committee or Committee on Public Undertakings who then examine the concerned officers of the

undertaking and come up with their own reports and suggestions to be considered by the Parliament.

### ***Bureau of Public Enterprises***

The overall control at the Government level over public enterprises was originally decentralized among various Ministries/Departments according to their functional area. An attempt on centralization of such control was first made in 1952 with the setting up of separate Ministry of Production. However, this did not last long. Later, a Project Coordination Cell was created in the ministry of finance which was later elevated to the status of a Division in 1963. It was later made a Department in 1963 and known as Department of Coordination. This too proved to be a short-lived experiment. It was abolished in 1967 and its functions were transferred to the Department of Expenditure. Meanwhile, Bureau of Enterprises had been set up in the Department of Coordination during 1964-65 to act as a service coordination and evaluation agency on important aspects of the Management of public enterprises. The Bureau was transferred in 1966 to the Cabinet Secretariat and later in 1967 to the Department of Expenditure.

### ***Organization of BPE***

From its small beginning as a coordination unit in the Finance Ministry, the Bureau has become a rather big Consultancy Organization. It has 5 technical divisions, each under a Director and Director General at the top. The divisions are based on functional lines as follows:

- (i) A Production Division;
- (ii) A Construction Division;
- (iii) A Finance Division;
- (iv) A General Management Division;
- (v) An Information and Research Division.

The special divisions have been formulating guidelines in their respective spheres and forwarding them to various public undertakings. The Administrative Reforms Commission has recommended that the Bureau should be invested with authority

appropriate to its responsibilities and it should be headed by the person of the status of a Secretary. This recommendation has since been implemented.

### *Functions of BPE*

When the Bureau was originally set up in 1965, it was assigned the 5 specific functions.

- (i) to provide a central point of reference and consultation and to deal with matters of general interest;
- (ii) to explore avenues of economy in capital cost of the project;
- (iii) to devise steps for improvement of productivity and profitability;
- (iv) to undertake appraisal and evaluation of selected areas in the performance of public enterprises;
- (v) to prepare an annual report on the working of the industrial and commercial undertakings of the Central Government for presentation to the Parliament.

The Administrative Reforms Commission had recommended the abolition of other agencies dealing with public undertakings, and transfer of their functions to the Bureau. These recommendations have been largely implemented and the Bureau of Public Enterprises has emerged as a strong organization for helping the Government in dealing with various matters connected with public undertakings. The Bureau now assists the Ministries in making an expert scrutiny of feasibility studies and project reports and helps them in controlling expenditure on residential and administrative buildings. It also acts as data bank and clearing house of information in respect of important matters of common interest.

### *Limitations of BPE*

The Government has kept the Railways, Post and Telegraph, the Ordnance Factories, State Transport Undertakings, the water and power utilities out of the purview of the Bureau. This has greatly reduced the area of operation of the Bureau.

### ***Planning Commission***

The investments in projects of the various public undertakings are to be approved by the Government. While according such approvals, the Government seeks the advice of the Planning Commission from the point of view of its compatibility with the national plan objectives. During this scrutiny the Public enterprise is subject to the control of the Planning Commission also.

### ***Conclusions***

The various instruments of control used by the Government for exercising control over the public undertakings have been mentioned above. These controls are necessary to enable the Government to discharge the functions as the owners of these undertakings. They have a responsibility to the people to ensure that the public funds are invested accordingly to the national priorities and put to efficient use. However, the control has often been excessive and exercised in an informal manner without accepting responsibility for it. The public undertakings have felt that the controls have resulted in unnecessary infringement in their autonomy. The Government has to find proper balance between the legitimate control over the use of public money and the autonomy of the public undertakings.

## Chapter – IV

### Problems of Public Enterprises

Public enterprises in India have now been functioning over the long period of time. They have acquired a great deal of experience in industrial and commercial fields. The Chief Executives of these public undertakings have to balance a number of factors in managing these activities. In the performance of their functions they experience a number of problems which will form the subject of the study here.

#### A. **Problem of Objectives**

The most important problem faced by public undertakings is unclear definition of their objectives. Sometimes it is argued that the public undertakings have been established for achieving the socio-economic objectives of the Government. They are supposed to serve the people and provide them necessary facilities and services without much regard to their profitability. At other times it is said that they have to earn reasonable profits on their investments. They are supposed to contribute to the surplus for the capital formation and for investment in the five years plans. Sometimes, it is said that they should help in the generation of employment in the country. India is facing a problem of large scale unemployment. The public sector undertakings are also expected to contribute towards solving this problem. These undertakings are also expected to bring new technologies for improving the technological base for industries. They have to venture into areas where private limited enterprise is not willing to come forward. While providing various services to the public, these public sector undertakings are also required to take into account the prices they are charging. Very often they are not permitted to charge the economic prices for the services they render or the goods they supply. While this may be justified on the grounds of public finance, it is difficult to justify it on economic considerations.

According to Dr. Samuel Paul, the objectives of public undertakings can be summarized into the following:

- (i) Political and ideological considerations;
- (ii) Economic growth considerations;
- (iii) Distribution or quality considerations.

More often these objectives are in conflict with each other. The Government does not define the objectives of the undertakings very clearly. The Chief Executives of the organizations are then left to their own devices to strike the balance between the various conflicting objectives. This creates a lot of difficulty in laying down proper policies and also in the evaluation of the performance of the public undertakings. When the objectives are not clear it is very difficult to lay down the criteria on which the performance of the enterprise has to be judged. When the criteria are not clearly laid down, the Chief Executive cannot be held accountable for any particular objective that was not made clear to him.

## **B. Autonomy of Public Enterprises**

The most important problem facing the management of public enterprises is the question of autonomy versus control. The question has been raised by the Chief Executive for the public enterprises on many forums and a number of committees and conferences have devoted a great deal of thought to this subject.

### ***Tenure of the Chief Executives***

The Chief Executives of the public undertakings have not been given any fixed tenure. Sometimes they are appointed by a contract of 2 years or 3 years or 5 years which is terminatable on 3 months notice. Sometimes extensions are given for 6 months or one year. Moreover, the Minister concerned has the full authority to terminate the tenure of the Chief Executive of a public undertaking. These are the insecure conditions in which the Chief Executive of a public undertaking has to work. Naturally, he cannot devote his full time attention to his job. He is under pressure to show short term results even at the cost of long term disadvantages. The effect on the personnel of public undertakings is also different when they have to deal with a comparatively long lasting Chief Executive than with one who is on year to year contract. According to a study conducted by Standing

Conference on Public Enterprises (SCOPE) in 1985, it was found that the average tenure of a Chief Executive was two years. They also found a positive co-relation between the length of the tenure and the results achieved in the undertaking. The Committee and the Sengupta Committee had also recommended for a longer and more stable tenure for the Chief Executives of the Public undertakings. The Jha Committee also recommended that the procedure for termination of the contract of the Chief Executive should be the same as for his appointment. It means that his contract should be terminated only with the approval of the Appointments Committee of the Cabinet with whose recommendations he is appointed. He should not be dismissed on the whims and fancies of a single Minister. This recommendation has been implemented.

### ***Financial Controls***

The Public Undertakings for taking up new projects have to go through EFC (Expenditure Finance Committee) and PIB (Project Investment Board) depending upon the amount of investment involved. This is very cumbersome procedure and the limits of investment over which this procedure has to be followed are rather low. The Economic Administrative Reforms Committee headed by Prof. L.K. Jha and the Sengupta Committee had recommended an upward revision of these ceilings. These recommendations have also been implemented.

### ***Appointment of the Government Directors***

The Government Directors appointed on the Board of Directors of the public undertakings try to influence the decision making of the Board without accepting the responsibilities for its decisions. This creates a lot of interference in the independent functioning of the Board. Sometimes the Minister uses informal responsibilities for the same. Very often the Minister also influences the decisions of the undertaking even in individual cases. All these interferences create a lot of problems for the public undertaking.

## ***Performance Evaluation***

At the moment there are no proper criteria laid down for the evaluation of the performance of the public undertakings. This is merely because the objectives are confused and there is too much day to day interference in decision making process of the public undertakings. The Sengupta Committee has recommended that Government may enter into a long term understanding with a public undertaking on the basis of a Memorandum of Understanding (MOU) between the Government and the undertaking. This is the French pattern in which the public undertaking promises to achieve certain results on the basis of certain inputs receive from the Government.

However, the question of autonomy versus control of the public undertakings is not an easy one to solve and requires a great deal of understanding on the part of the Government as well as the public undertaking.

### **C. Appointment of the Board of Directors**

The functioning of public undertakings is very much influenced by the type of members included in the Board of Directors. Very often the Government does not appoint the qualified people on the basis of merit. Sometimes the appointments are made on political considerations to oblige politicians who have been defeated or to accommodate unofficial civil servants or retired officials etc. This kind of a board is not very helpful in the running of a public enterprise. Even if the objectives are normally laid down and there is a competent Chief Executive, the functioning of the public enterprise cannot be improved if the Board of Directors consists of incompetent people who have no idea about the functions to be performed by the undertaking. It is therefore, essential that the Board of Directors should be appointed after the careful consideration of the qualifications of the members. The only consideration in their appointment should be their ability to make a contribution to the functions as a team of the Board of Directors. No extraneous considerations should be allowed to play a role in their appointment.

#### **D. Problems of Human Resources**

The public enterprises face a great difficulty in obtaining and retaining the services of the right type of people. For one thing, the qualified people fulfilling the job requirements are not easily available in the market. Even when they are available, the absence of proper recruitment and promotion policy do not attract the best talent to the undertakings. There are many other problems in the management of the human resources. Some of them are mentioned below:

##### ***Recruitment and Promotion Policies***

They have already been hinted above. The recruitment should be based on merit and according to the requirements of the job. Very often the process is marked by favoritism and nepotism shown either for the sake of the Minister or for the sake of senior members.

##### ***Promotion***

Another important problem of personnel management relates to promotion. They should also be based on the objective criteria. Unfortunately here also favoritism/nepotism make place and this results in poor morale of the employees.

##### ***Training***

Proper training facilities for the development of the personnel are not available. Whatever facilities are available, are also not availed of. This results in the stagnation of the personnel of the public enterprises and does not allow their proper development. This needs to be remedied if the proper personnel are to be attracted and retained in the organization and developed into useful senior executives at proper time.

##### ***Proper Management Practices***

Very often, the culture prevailing in the organization is rather authoritative and not prospective in the decision making. Employees

do not acquire a sense of involvement in the public undertakings. Their morale therefore goes down and the enterprise is not able to get out his employees. Many numbers of researches have shown that a perspective style of management improves the morale of the employees.

#### E. **Operational problems**

Besides the problems mentioned above, there are a number of operational problems which the public sector undertakings are facing. Some of these problems are discussed below:

##### ***Lack of Corporate Planning:***

Most of the public sector enterprises do not prepare a “Corporate Plan”. It is absolutely essential for the public undertakings to take a stock of their resources and their deficiencies. They should clarify their objectives and frame a corporate plan for the enterprise. Without a corporate plan, the organization cannot understand the direction in which it has to move. It is like the driver of the train who does not know where to go. One of the latest deficiencies of our public undertakings is the lack of such a plan.

##### ***Inventory Management:***

Many of our public undertakings are stocked with too much inventories. This results in the deterioration in the production process as well as the locking up of these resources in inventories. To that extent the funds are locked up without any use for other purposes also. Probably, this is the result of the improper coordination between the production and marketing. Most of the public undertakings are working in monopoly situation. They are therefore not taking enough care to see that the inventories at the production stage as well as at the marketing stage are reduced to the minimum.

##### ***Paucity of Resources:***

Very often the public undertakings do not get enough resources for putting up new projects and expanding the old ones. Sometimes their

resources are locked up in the inventories and other times Government does not find it possible to give them their contribution of share capital or loans. The cost of the projects due to escalating prices as well as due to interest on the sunken funds. It is therefore, necessary that whatever a project is planned necessary resources are made available according to the needs. It is better not to start a project rather than to start it and see it languish for lack of resources.

### ***Delays in Project Implementation***

Apart from the lack of resources there are many other reasons for which implementation of the projects in public undertakings is delayed. Sometimes the proper personnel are not available. It also happens that in spite of the availability of the personnel the project gets delayed due to the lethargy of the people and lack of leadership available to them. It is also found that not enough care is taken at the time of preparation of the project to foresee the various problems that are likely to arise in the future and to arrange for the necessary resources at the time of starting the project. All these result in delayed implementation of the projects increasing their costs to a great extent. Apart from that the long gestation period of the project adds to the inflation in the economy.

### ***Conclusions***

There are many problems that the public sector enterprises face in their functioning. Some of these problems arise due to the exercise of excessive control by the Government and the extra constitutional influence exercised by the Minister on political and partisan considerations. However, that is not the end of the story. Many public sector undertakings suffer from leadership, an unmotivated workforce, lack of project planning, lack of discipline, lack of proper personnel policies. etc. The public sector enterprises will do well to put their own house in order rather than blaming the control exercised by the Government for all their failures. There is a lot of scope for improving the operational efficiency within the organization.