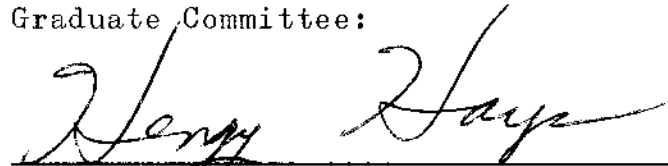


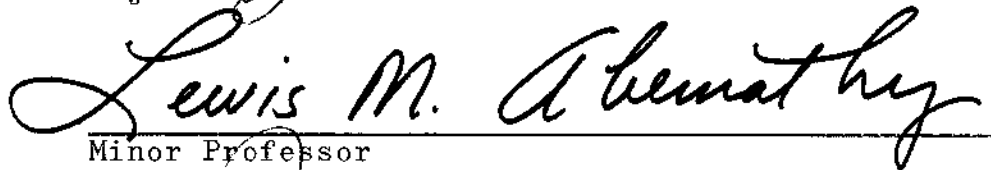
IMPACT OF THE POLICIES OF THE NATIONAL GOVERNMENT  
ON THE ORGANIZATION OF BUSINESS AND  
MANAGEMENT STYLES IN INDIA

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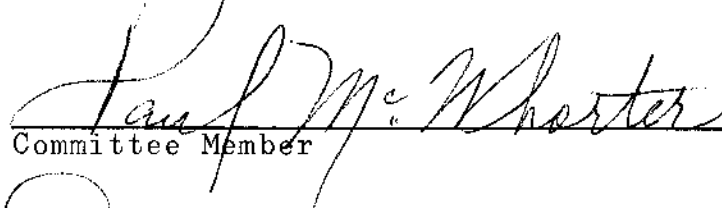
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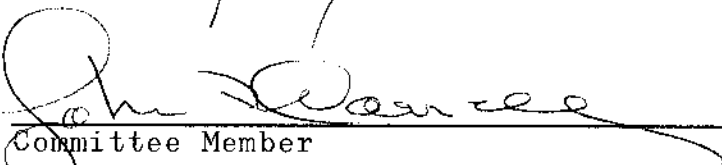
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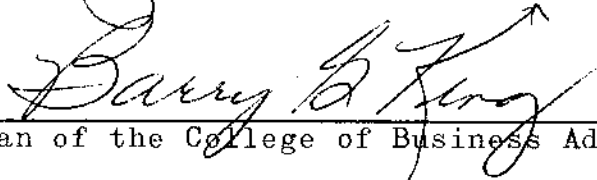
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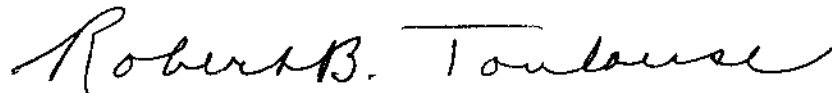
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Khan, Mohamed A., Impact of the Policies of the National Government on the Organization of Business and Management Styles in India. Doctor of Philosophy (Business Administration), May, 1972, 196 pp., 22 tables, bibliography, 68 titles.

The purpose of this investigation is to explore the policies of the government of British India and of the independent Republic of India relative to their impact on organizational structure, management practices and styles, and management education in business organizations in India. The British, who were responsible for the growth of some of the organized industries in India, also gave the country, among other things, a modern educational system. They left India, however, with a limited industrial base. There was a serious shortage of professional managers to meet the demands of growing industry. Upon independence, the national government through its policies encouraged the development of business and industries and brought awareness among business managers of the importance of management education.

Data were assembled from publications from several governmental agencies in India and from legal documents and specific enactments. Literature published by managers, economists, and academicians was also investigated. Finally,

data were collected from a sample of sixty-nine business firms in India.

The dissertation is divided into seven chapters. Chapter I contains the introduction, background and significance of the study, a statement of the problem, hypotheses, and research methodology. Chapter II deals with the development of business and industry during and before the British period, and Chapter III discusses the origin and growth of the managing agency system. Chapter IV delves into the policies and actions of the national government for the regulation and reform of the management of business while Chapter V deals with the formulation of plans for economic growth and the development of management education to aid in the creation of a cadre of professional managers. Chapter VI contains the analysis of the data collected from business firms in India, and Chapter VII gives a summary of the research and the conclusions.

The investigation revealed that the British impact on the industrial climate of India was favorable during the current century. The policies of the national government, through the creation and utilization of appropriate machinery, had an impact on the organization and management practices and styles of private business. Government legislation was directed toward planned development and regulation of industries as well as toward reforming the managerial practices

of business firms. It also provided various alternate forms of management to replace the old managing agency system. Though the management style of business was still authoritative, the teachings of Gandhi and the policies of the government gradually changed the thinking of the masses in order to solve economic and social problems through democratic process. The gradual decentralization of business organizations and their increased emphasis on employee motivational activities provided evidence of this.

The process of industrialization, which was accelerated by government through economic planning, created a great need for developing high-level managerial resources. These resources were achieved through the expansion of technical and management educational opportunities for the masses. Business managers accepted the fact that educated, university-trained managers could be valuable assets to their organizations. Governmental legislation and policies relative to the expansion of business, industry, and management education had a definite impact on organizational structure and management practices of business firms in India. Among other things, it was also responsible for the creation of a cadre of professional managers. Additional research should be conducted at a future date in order to ascertain if these policies were adequate to ensure a lasting change in economic conditions.

IMPACT OF THE POLICIES OF THE NATIONAL  
GOVERNMENT ON THE ORGANIZATION OF  
BUSINESS AND MANAGEMENT STYLES  
IN INDIA

DISSERTATION

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## CHAPTER I

### INTRODUCTION

Management of business enterprises in India has been undergoing a gradual change since 1947, the year of independence from the United Kingdom. In the past, business suffered from undermanagement because of the shortage of trained and experienced business managers. Now, the traditional style of business management is being replaced by modern practices under pressure both from socio-economic changes and government regulation.

Although Indian managers are responding favorably to modern techniques of management, much remains to be done, and there is an acute need for speeding up the process. Nevertheless, this response to change is a healthy sign for the future business growth of a developing country.

#### Background and Significance of the Study

Although British rule lasted for less than one hundred and fifty years, it left a distinct mark in that it laid the foundation for a democratic form of government, modern communications, a legal system, an educational system, and an efficient civil administration. The head of the British

government in India, called the Viceroy, was a representative of the British crown. He had executive power in the central government and ruled with the assistance of his Council. Under the Government of India Act of 1935, he made a wide variety of decisions with the advice of the Central Legislative Assembly in the areas of foreign affairs, defense, and the like.

Self-government was granted gradually to provinces which were governed by legislatures elected by a limited popular suffrage. As heads of the provinces, provincial governors were appointed by the Viceroy, but the provinces were governed mainly by the elected ministries. Aside from these elected provincial legislatures, there were about 600 princely states scattered throughout India whose rulers were under treaty with the British crown which granted them internal autonomy while keeping direct control over their foreign affairs and defense.

The growth of large-scale, organized industry during the British period owed much to the establishment of joint stock companies with the help of British capital. The organization and management of these companies was accomplished with the help of the Managing Agency System.

In 1947 India became an independent nation when the British partitioned the country, thereby creating two independent nations--India and Pakistan. India chose to become a democratic republic based on universal adult franchise,

thus becoming the world's largest democracy according to population.

India is predominantly an agricultural society in which the rural sector is large enough to contribute almost one-half of the national income. The society was dominated by traditions for centuries; as a result of this, the bulk of business management was based on rules of thumb, customs, and intuition. Well-managed subsidiaries of foreign companies, particularly American and European, have led Indian companies to try progressive, modern management techniques.

The efforts of the national government since independence were concentrated on changing this traditional arrangement of society, as stipulated in the Constitution:

The State shall endeavour to secure, by suitable legislation or economic organization or in any other way, to all workers, agricultural, industrial or otherwise, work, a living wage, conditions of work ensuring a decent standard of life and full enjoyment of leisure and social and cultural opportunities and, in particular, the State shall endeavour to promote cottage industries on an individual or co-operative basis in rural areas.<sup>1</sup>

In pursuance of the commitment made under the "Directive Principles of State Policy" as laid down under the Constitution, the government of India established several agencies to advise it in areas of national concern. For example, the All-India Council of Technical Education

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<sup>1</sup>The Constitution of India, Government of India, Ministry of Law, Government of India Press, Part IV, Article 43 (New Delhi, 1967).

advised the government on the development of technical education including management education. A Board of Management Studies was established in 1953 for the development of courses in various areas of education to be taught in several universities in the country. These courses emphasized the application of management theory to practical business situations and prepared executives for responsible managerial positions. The Board also recommended the establishment of the Administrative Staff College at Hyderabad, India, patterned after the well-known Administrative Staff College at Henley-On-Thames in England, and this institution was opened in September 1957. Short-duration courses designed for public and private enterprise business executives of both the upper and middle levels and for administrative officers from central and state governments are taught at the college. Opportunities are provided for executives to exchange ideas and experiences and to develop better understanding of their managerial responsibilities through management education.

Organizations such as the All-India Management Association, the National Productivity Council, Regional Management Associations, Indian Management Institutes at Calcutta and Ahmedabad, Indian Institute of Public Administration, All-India Institute of Social Welfare and Business Management, and several universities are offering a number of courses in general management as well as in other functional and specialized areas. On the other hand, the Small

Industries Service Institutes are engaged in providing management training facilities for small-scale industries.

Several progressive companies have started their own management-training programs for junior as well as middle-level executives. Business organization and management styles are changing steadily under the influence of such programs; young and well-educated Indian managers and administrators are accepting new ideas and are adapting themselves and their organizations to this changing environment.

Thus the policies of the national government are having a great impact on organizational structure and management styles in private business.

#### Statement of the Problem

During the British period industrialization spread slowly to only a few areas of India. Although the British were responsible for the growth of some of the most important basic industries in the country, they left India in 1947 with only a limited industrial base. There was a serious shortage of managerial expertise to meet the demands of growing industry. This study will take a closer look at the growth of private business during the British rule and assess what desirable improvements in the management of private enterprises were made during this period.

Upon achieving independence, the new national government assumed the huge task of encouraging the development of

private business by instituting various economic and management training programs. Private business, through its active participation in most of the programs sponsored by the national government, revealed its awareness of the importance of management education. In light of new knowledge, efforts are being made by the managers to bring about desirable changes in organizational structure as well as in the attitudes and motivations of people in business and industry. This study will explore the impact of governmental policies and actions on the organizational structure and management styles of private business in India.

#### Hypotheses

1. Policies of the British colonial government and the current national government had a major impact on shaping organizational and management styles of private business in India.

2. The acceptance and use of management education by private business also had a major impact on organizational structure and management styles.

#### Research Methodology

In view of the nature of this research, publications from several agencies of government in India were used intensively. Some of the important agencies whose publications were highly relied upon include the Planning Commission; Administrative Staff College at Hyderabad, India;

Information Service of India in Washington, D.C.; Consulates of India in New York and San Francisco; Ministry of Commerce and Industry and Ministry of Law, government of India.

Legal documents and the specific enactments passed from time to time by the Central Legislative Assembly during the British period and by the Parliament of India after independency were also used to study the impact of governmental policies on private business. Reports of the Commissions of Inquiry set up by the national government at different times have been helpful in many areas of this research.

In-depth investigation of the literature published mostly by Indian managers, economists, and academicians was undertaken to develop historical and current information on the policies of the British colonial government and the new national government relative to private business enterprises in India. This literature included books, periodicals, newspapers, research studies, reports, and other source materials. The historical growth of joint stock companies under the managing agency system, as well as the nature and characteristics of the managing agency system in fostering or hindering the industrial development of the country, has been determined from published sources. The impact of the Five-Year Plans on the economy of India in general and on the organization and management practices of private business in particular was measured from the responses received from managers of business enterprises, data published by several



governmental agencies, and commentaries of different writers.

Personal interviews and consultations with Indian managers were ruled out because of the distance involved and the lack of funds for making a trip to India for such a purpose. Therefore, a questionnaire was developed in order to gather empirical data about the type of organization and about the management styles of private business; it was also expected to reveal the impact of management education on management practices. This questionnaire was mailed to business managers who represented an important cross-section of management in India. Although about 69 percent of the Indian managers contacted furnished comprehensive answers to the questionnaire, the data thus obtained were fairly representative of business enterprises in India.

#### Definition of Terms

British colonial government--The central government in New Delhi before 1947 headed by the Viceroy as the representative of the British Crown.

National government--The independent democratic republic of India established in 1947.

Managing Agency--A company or a firm which enters into an agreement with another company (or companies) for the management of its affairs in return for a certain remuneration. The managing agency system is typical of the historical growth of the Indian industries.

Joint Stock Company--A company registered under the Indian Companies Act and having a permanent, paid-up capital divided into shares of stock held by its members. Unlike the charter in an American corporation, a joint stock company is organized with the help of articles of association prepared in pursuance of the act. The articles contain the regulations of the company. The liability of the stockholders could be limited or unlimited...

The Companies Act provides for "private" limited companies and "public" limited companies. A private company restricts the right to transfer its shares without first obtaining the approval of the board of directors. This serves the double purpose of first ensuring the continuance of the private character of the company and second of preventing an increase in the number of members. The law also restricts its membership to not less than two and not more than fifty and prohibits any invitation to the public to subscribe for any shares or debentures of the company.

A public company, on the other hand, is one which is not a private company. Its capital stock is subscribed by the public, and there are no restrictions placed on the size of its stockholders.

The Five-Year Plan--Economic planning by the government of India. The First Five-Year Plan was dated 1950/51-1955/56. The main objectives of the plan have been the assessment of the material, capital, and human resources; balanced utilization of the country's resources; and economic development.

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## CHAPTER II

### THE DEVELOPMENT OF BUSINESS AND INDUSTRY BEFORE AND DURING THE BRITISH PERIOD

After the downfall of the Mogul empire during the nineteenth century, Britain emerged as the ruling power in India. Consequently, the British had a significant impact on political, social, and economic life and became the contact through which Western influence was introduced. Chapter II examines the economic climate during the Mogul period and the later impact of British rule on the growth of business and industry in India.

#### Economic Climate During the Mogul Period

Ancient India was famous for some of its manufacturing industries which found a ready market everywhere in the civilized world. The Indian Industrial Commission paid a glowing tribute to the industrial development in ancient India when it remarked,

India was famous for the wealth of her rulers and the high artistic skill of her craftsmen, at a time when the west of Europe, the birthplace of modern industrial system, was inhabited by the uncivilized tribes. And even at a much later period when the merchant adventurers from the West made their first appearance in India the industrial development of this country

was, at any rate, not inferior to that of the more advanced European nations.<sup>1</sup>

The history of the development of these industries goes back thousands of years. For example, two or three thousand-year-old Egyptian mummies were found embalmed in the finest quality Indian silks and muslins. Arts, industries, and manufacture reached a high point of glory during the Mogul period. Bernier, a Frenchman who visited India during the reign of Emperor Shahjehan, marvelled at the "incredible quantity of manufactured goods such as embroideries, streaked silks, tufts of gold turbans, silver and gold cloth, brocades, network of gold. . . ."2

Since these arts and crafts enjoyed the patronage of the Moguls and the Rajas, they were organized in royal workshops as well as in artisans' homes under crafts guilds. In these royal factories or "Karkhanas," a large number of artisans were hired; and according to Bernier, they worked in large halls set aside for embroidery work, goldsmith work, painting, lacquer work, tailoring, shoe-making, brocade work, and fine muslin work. These workshops were famous for excellence of designs and craftsmanship, and encouraged improvements, provided a steady employment to workers and relieved them of risks of trade, and ensured the

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<sup>1</sup>Indian Industrial Commission Report (New Delhi, 1913), p. 1.

<sup>2</sup>C. B. Mamoria, Organization and Financing of Industries in India (Delhi, 1960), p. 2.

supply of foreign demand for their goods.<sup>3</sup> These workshops were also engaged in producing ivory carvings, wood carvings, carpet weaving, brass and copper wares, gold and silver work and in cutting precious stones. The iron and steel industry was also highly developed because it furnished materials for making blades, swords, and cannons of high quality. "The iron and steel industry not only supplied all local wants, but it also enabled India to export its finished products to foreign countries. The quality of material turned out had also a worldwide fame."<sup>4</sup>

The development of such an industrial system during the Mogul period had its strengths as well as its weaknesses. Its strength grew out of the fact that it provided steady employment to a large segment of the population consisting of craftsmen and artisans. Since these crafts and industries were highly in demand in the domestic and foreign markets, Indian industrial and commercial organization could compete in other parts of the world. Also, royal patronage of these handicrafts provided economic security to the craftsmen. Handicrafts which catered to the individual needs and tastes of the consumers, especially the royal courts, enabled the craftsmen to reach a height of quality in the manufacture of these items. This in turn helped these industries to retain their demand in the world market.

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<sup>3</sup>Radhakamal Mukerjee, The Economic History of India (Allahabad, 1967), p. 88.

<sup>4</sup>Indian Industrial Commission Report, p. 295.

In spite of all these strong points, the system had inherent weaknesses such as the fact that the survival of all these industries was entirely dependent upon royal patronage. Withdrawal of such patronage meant the decline or even the disappearance of many handicrafts. Another weakness was the hereditary nature of industrial occupation which created disinterested young craftsmen who did not want to continue the family profession but who were unable to escape because of family pressure and the socio-cultural environment of the society. Also there was a lack of research in improving products and developing new ones. Nevertheless, the system, did work fairly well, both in domestic and international markets; it grew steadily and attracted wealth and talent from various parts of the world making the Mogul period a golden one in the development and growth of business and industry in India.

#### During the East India Company Period

The industrial and commercial organization of India was competitive with the rest of the world until the beginning of the nineteenth century. Following the breakup of the Mogul empire, however, Indian handicrafts gradually lost their world market. The British East India Company then emerged as a successful trader in India and extended its commercial strength to gain gradually political and economic power in the country.

The industrial decline was caused by several natural factors as well as the policies of the East India Company. Among the natural factors, the most outstanding was the Industrial Revolution in Europe which led to the discovery of new machines and to the harnessing of steam power for use in factories. Further, the discovery of sea routes to India brought European merchants, especially the Dutch, the French, and the English. These merchants gained important concessions from the royal courts in the form of low custom duties, free land, and the rights to trade domestically.

As a result of its flourishing inland and foreign trade during the seventeenth and eighteenth centuries, India's shipping industry was also highly developed. Exports of cotton, silk, indigo, and other handicrafts maintained a favorable balance of trade for India and brought vast quantities of precious metals from all over the world. But gradually the Indian shipping industry was being eliminated because of the European monopoly and because of sea piracy in Asiatic waters, since there was no naval protection available to the Indian ships. This English monopoly of shipping was leading India toward complete economic dependence on England.

The East India Company now revised its policy of trade and decided to gain political influence by transforming its factories and warehouses into armed garrisons. The Company entered into political alliances with the warring Indian

rulers and eventually defeated its rivals, the Dutch and the French, in various battles. The English were thus able to occupy three strategically important coastal areas--Gujarat on the west coast, Coromandel on the south coast, and Bengal--which ultimately enabled them to win the Indian empire.

During the East India Company's rule, several Company policies were detrimental to the growth of Indian industries. For example, the sale of British goods in India was encouraged, and in 1769 the Company's Directors encouraged the production of raw silk in Bengal and discouraged the manufacture of silk fabrics; silk-winders were forced to work in the Company's factories under severe punishment. Also the British government's tariff policy was harsh on the importation of Indian products into England. A common level of duties on imports of Indian goods into England ranged between 67 per cent and 400 per cent. In 1835 British cotton manufactures were imported into India at 2.5 per cent duty, whereas Indian cotton goods sold in India had to pay 15 per cent. Rates at the same level were also levied on sugar, boots and shoes, and 235 other articles of consumer goods.<sup>5</sup> These duties were not removed until after England returned to a free trade policy in the middle of the nineteenth century.

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<sup>5</sup>T. B. Desai, Economic History of India Under the British (Bombay, 1968), p. 77.



By the time the East India Company rule was consolidated, around the middle of the nineteenth century, Indian handicrafts and industries were at their lowest ebb. The East India Company and its employees drained vast amounts of specie from India which they obtained from the princes and their officials for inland trade. The specie and large amounts paid as salaries to the Company employees were remitted to England. This created a serious shortage of specie in the country by the turn of the nineteenth century in contrast to the time when gold and silver were abundant enough to take care of the country's financial needs. This financial drain had a devastating effect on the growth of industrialization. The textile industry in particular suffered a severe setback because of England's tariff policy.

Had this not been the case, had not such prohibitory duties and decrees existed, the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the power of steam. They were created by the sacrifice of the Indian manufacture.<sup>6</sup>

All this proved fatal to many of the old industries for which India had been famous for centuries. Protective tariffs were not allowed Indian industries during the early Company rule. (It was only in the 1920's that such tariffs were granted). In the absence of these tariffs, British

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<sup>6</sup>Mathew J. Kust, Foreign Enterprise in India (Chapel Hill, 1964), p. 20.

goods, especially cotton textiles, gradually swept over the Indian market. As a result of this, the traditional weaving industry for which India was renowned for ages was ruined by the second decade of the nineteenth century.<sup>7</sup>

By the middle of the nineteenth century, the East India Company first conquered many areas of India and then annexed them into its empire. The insurrection of Indian soldiers and many princely states against the growing power of the Company, commonly known as "The Indian Mutiny," took place in 1857 with the Company emerging as victors. "British conquerors massacred the inhabitants of Delhi after the mutineers had escaped; and British Special Commissioners executed thousands of citizens in Northern India, guiltless of the Mutiny."<sup>8</sup> The Mutiny gave the British government an excuse for taking over the rule of India from the East India Company. In 1858, through a proclamation to the people of India, Queen Victoria took over the reign of India and brought about internal tranquility, law, and order and stimulated industry in the country.<sup>9</sup>

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<sup>7</sup>Romesh Dutt, The Economic History of India Under Early British Rule, (London, 1956), pp. 450-475.

<sup>8</sup>Romesh Dutt, The Economic History of India, (New York, 1969), p. 224.

<sup>9</sup>Ibid., pp. 232-235.

### During the British Period

India was now a part of the British Empire. The British had returned to a policy of absolute laissez faire by this time; ironically enough this policy served British interests at the cost of the Indian. Under this new policy, Indian goods were eventually driven out of the market by British goods. Gradually, in the absence of homemade products, Indian consumers became dependent upon British goods. This downfall of old industries led the country to become a predominately agricultural society, leaving craftsmen, manufacturers, and artisans in a state of poverty. Until the turn of the nineteenth century, India remained an exporting country, but because of the early policies of the British crown, it turned into an importing nation dependent upon British goods. The death of domestic industries converted the country into a plantation which primarily grew raw materials to be exported for British industry and then imported as finished products by the British merchants.

### Move Toward Organized Industry

It was not until the second half of the nineteenth century that the British started contributing significantly to the beginning of organized industry in India. At this time, industrialization began in some of the large metropolitan areas such as Bombay, Calcutta, and Ahmedabad. It spread gradually to other sites in Behar, Bangalore,

Coimbatore, and Ludhiana which later became industrial centers of the nation.

At first, modern industrial enterprises were started by Englishmen on plantations which grew, tea, coffee, rubber, and indigo. This was mostly in Assam, Punjab, and the Nilgiris. But the history of organized industry in India can be traced to 1854 when the real beginnings of the cotton textile industry were made in Bombay with predominantly Indian capital and enterprise. Although this industry had severe foreign competition and, consequently, a slow beginning, it progressed steadily in the Bombay and the Ahmedabad areas. In 1855 the jute industry was started near Calcutta, mostly with foreign capital and enterprise, and it grew fairly rapidly during the second half of the nineteenth century. Coal-mining also progressed around this time, but it did not do so well until the end of the century when the exports of coal increased.<sup>10</sup>

By the end of the nineteenth century the tea industry assumed great importance since the area under cultivation grew steadily with its rising exports. Other industries growing at this time were woolen, paper, leather, manganese mining, engineering workshop foundries, gold mining, mica, iron, steel, cotton gins, rice mills, oil and flour mills, and a host of others.

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<sup>10</sup>Ministry of Information and Broadcasting, Government of India, India (New Delhi, 1969), p. 315.

The growth of industries from 1890 until World War I was fairly steady in all fields. With the expansion of railways in India and the greater use of automobiles, small machines and motors came to be used. Professor Gadgil, an eminent Indian Economist, remarked,

It is indeed in this direction of a slow spread of the use of improved machinery in various operations, the introduction of small motors wherever no power was used before, and the establishment of small local and isolated factories in industries in which no very complicated processes were required, that the real industrial progress, whatever its extent, took place in India during this period.<sup>11</sup>

World War I stimulated the growth of all the industries in the country, because as part of the British Empire, India automatically became an active participant in all war activities. Its men fought abroad in Europe and the Middle East, and its factories ran at full capacity to meet the war needs and to take care of the domestic market since all imports from Europe had stopped. Although war boosted the economy, especially industrial growth, it created certain problems. The importation of machinery from Europe had stopped, and the country did not have enough technical know-how or skilled personnel to speed up industrial production. Moreover, there was a lack of coal and coke plants, railway accommodation, and an organized capital market and banking facilities.

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<sup>11</sup>D. R. Gadgil, Industrial Evolution of India in Recent Times (Calcutta, 1948), pp. 135-136.

Despite all these difficulties, the existing machines were used at full capacity in all essential industries.

The demand for cotton and jute products for military purposes rose during the war which, of course, boosted production in both these industries. Another important industry which developed during this period was iron and steel. Chemical industries, tanning and leather, engineering, mineral oils, paper, soap, glass, cement, fertilizers, paints and varnishes were some of the other industries which progressed considerably during the time of war. Thus World War I created favorable conditions for the growth of organized industries in the country.

#### Policies of the Government of British India

In 1850 the government of India passed the Companies Act which was modeled after the English Companies Act of 1844. When the English act was amended in 1866, 1882, 1887, 1891, 1895, 1900, and 1910, the Indian act was also amended.

The most significant step in the development of company law in India was taken with the passage of the Indian Companies Act of 1913 which became effective on April 1, 1914. This act "was based on, and almost a verbatim reproduction of, the English Companies Act of 1908 which was a consolidating Act."<sup>12</sup> It laid the foundation for the formation of

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<sup>12</sup>Kshetra M. Ghosh, The Indian Companies Law (Calcutta, 1940), p. 1.

joint stock companies in India along British lines. This act was a lengthy and comprehensive document containing 290 sections in which the object was to consolidate and amend the law relating to trading companies and other associations. It also permitted the registration of a company so that the members had limited liability. The act also defined the role of managing agents, a detailed discussion of which is given in the next chapter, and clearly traced the distinction between "manager" and "managing agent." The act of 1913 was not amended until 1936 to meet the public demand for basic changes in it. The amendment of 1936 was directed at preventing undesirable corporate practices. Provisions were also made for reforming the financial record-keeping and auditing practices of corporations.

During World War I two important actions were taken by the government of India in favor of commerce and industry: the appointment of the Indian Industrial Commission in 1916, which submitted its report in 1918, and the establishment of the Munitions Board in 1917. The Industrial Commission was assigned the task of exploring the possibilities of further industrial development and submitting its recommendations relative to the following issues:

(a) Determining the manner in which government can provide direct encouragement to industrial development through free technical advice, direct or indirect financial

assistance to industrial enterprises, or any other means which were not incompatible with the fiscal policy.

(b) Exploring the possibilities of the profitable employment of Indian capital for the growth of industries.<sup>13</sup>

The Industrial Commission stressed the need for an active role by the government in the industrial development of the country in order to make it self-sufficient. Some of its important recommendations were the establishment of provincial boards of industries, the creation of proper administrative machinery in the central government to deal with the industrial policy, and the adoption of a policy of protection for new industries. The government accepted the recommendations of the Commission in principle, but because of post-war reorganization their implementation was delayed.

The Indian Munitions Board was established to control and develop resources, with special reference to the needs created by the war, and to limit and coordinate demand for articles not manufactured or produced in India. Although the primary purpose of the establishment of the Board was to assist in the war efforts, it helped indirectly in the development of indigenous industries by direct purchase of materials in India. It diverted all war orders to Indian manufacturers, provided assistance in the importation of

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<sup>13</sup>Indian Industrial Commission Report (New Delhi, 1918).



machinery and technical help from abroad, and gave free advice and assistance in the establishment of new industries.

During the post-war years large amounts of British capital poured into the country's industries and commerce increasing from 14.7 million pounds (or 9 per cent of the total) in 1908-10 to 29 million pounds in 1921 and 36 million pounds in 1922. In 1918-20 the number of registered companies was 2,713 with a paid-up capital of about 10.6 million rupees as against 2,681 companies in 1913-14 with a paid-up capital of 7.6 million rupees; these figures rose to 4,781 in 1921-22 with a paid-up capital of 22.3 million rupees.<sup>14</sup> (The Indian monetary unit is the "Rupee," and according to the current rate of exchange one dollar is equal to about 7.5 rupees.) Thus between 1918 and 1922, the number of registered companies increased by about 75 per cent, and the paid-up capital more than doubled.

Indian industries were still in a stage of infancy and badly needed protection from foreign competition. So far they were not granted protective tariffs, even though the Industrial Commission recommended such tariffs in 1918. Under the pressure of public opinion, the government of India in 1921 appointed a Fiscal Commission to report on the tariff policy. The Commission recommended in its report of

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Gadgil, p. 243.

1922 a policy of protective tariffs and the establishment of a Tariff Board to advise the government in this area. The Commission laid down three principles to serve as a guide for the selection of industries in need of protection. These were as follows: (1) The industry must have an abundant supply of raw materials, labor, cheap power, and/or a domestic market; (2) a protective tariff is essential for the survival and growth of the industry; and (3) the industry eventually must be able to withstand foreign competition.<sup>15</sup> The industries which received protection between 1923-1939 as a result of the Commission's recommendations were cotton textile, iron, steel, paper and paper pulp, sugar, matches, salt, agriculture, heavy chemicals, magnesium chloride, plywood and tea chests, and gold thread. These industries benefited at the cost of high prices to the consumer, but the Fiscal Commission stated,

our finding is that so far as the prewar tariff policy is concerned, it can be claimed that the policy of discriminating protection, within its limited scope, has achieved a fairly large measure of success and that on balance the direct and indirect advantages to the community resulting from the protection granted to the major industries which received it have offset the burden on the consumer.<sup>16</sup>

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<sup>15</sup>Report of the Fiscal Commission (New Delhi, 1949-50), pp. 47-48.

<sup>16</sup>Ibid., p. 331.

World War II brought further progress to the industrialization process in the country. Again although this war was not fought on Indian soil, the country's industries worked full capacity to take care of the war needs. Some important new industries begun during the war were nonferrous metals and metal fabricating industries, mechanical industries, and chemicals.

The government appointed many commissions and boards during the war to ascertain ways of furthering the war efforts. For example, the Board of Scientific and Industrial Research was established in 1940 for devising, among other things, new methods of production and for developing substitute products to fill the demand for peace-time imports. An Industrial Utilization Committee was also established to speed up industrial development. The government embarked on several programs of technical training in the country while at the same time a large number of young people were sent abroad for technical training through government scholarships during the post-World War II period.

Indian industries could be classified under two separate categories: (1) Small-scale and cottage industries and (2) large-scale industries. Some of the important cottage industries include handloom, silk, woolen, pottery, embroidery and lacemaking, handblown glass, brass and bell metal industry, and handicrafts. As defined by the

government of India, small-scale industries include all industrial units with a capital investment in plant and machinery of not more than 750,000 rupees irrespective of the number of persons employed.<sup>17</sup> Large-scale industries include cotton and jute textiles, paper, sugar, cement, chemicals, iron, steel, machinery, minerals and mining, and coal and lignite. In addition to this, plantation industries which are also grouped under large-scale, are very important to the economy of India. Three principal plantation industries include tea, coffee, and rubber.

#### Small-Scale and Cottage Industries

India was renowned for its small-scale and cottage industries for centuries even before the arrival of the European traders. These industries formed the foundation for the country's industrial prosperity. There is little difference between a cottage industry and a small-scale industry. According to the Indian Fiscal Commission Report of 1950, a cottage industry is so named because its worksite is generally the home of the artisan himself or a small "Karkhana" (factory), and the workers are primarily the family members and a few hired hands. On the other hand, a small-scale industry is carried on mainly with a small number of

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<sup>17</sup>India, p. 346.

hired laborers. In view of the similar characteristics of these two, they are often mentioned together.

The cottage industries fulfilled a real need for the predominantly agricultural Indian economy. Since agriculture is a seasonal occupation, the worker remained unemployed and without any income during the off season. In the absence of any other skill, he found it extremely difficult to assume any other job in industry. The cottage industry provided steady employment to seasonally unemployed farmers and boosted their incomes; at the same time it enabled them to fight poverty and added to the national wealth. Even many industrially advanced countries such as France, Germany, Italy, Switzerland, and Japan have balanced their economies with the help of cottage and small-scale industries.

More specific arguments are also advanced for the development of these industries in India. The land holding of the peasant was small and fragmented, leaving him with an inadequate income and forcing him to borrow heavily in order to maintain his family or move to nearby towns during the offseason and take temporary jobs paying low wages. Growing population pressure on land was further responsible for reducing the size of holdings and for overcrowding in agriculture. The great population growth created a vast supply of surplus rural labor because 70 to 80 per cent of the country's population still lived in rural areas. These conditions were responsible for creating a state of constant

want and enforced idleness. Moreover, almost all large-scale industries were highly concentrated near metropolitan areas giving rise to overcrowded industrial housing, problems of slums and public health, and a host of other social and economic evils. It was believed that the revival of the old cottage and small-scale industries and the introduction of new ones could prove useful in rehabilitating the rural population. It was therefore argued that rural areas were best suited for the development of such industries.

Despite unfavorable circumstances and lack of governmental support during the early British period, many cottage and small-scale industries had remarkable strength for survival. This strength lay in their usefulness and appeal to the consumers. Many cottage industries such as button-making, wood and ivory carving, handloom fabrics, toys, and artistic gold and silver and brass works were produced to meet the artistic tastes of the customers and were unsuited for large-scale production. Also new industries suitable for large-scale production were first tried on a small scale in their experimental stage in order to determine their success in the market.

The Indian artisan was always rather conservative and tradition-bound, and because of a lack of other employment opportunities, he stayed with his ancestral profession. Moreover, his ancestral occupation gave him a sense of independence and satisfaction in pursuing his work within

his family traditions. He borrowed from the new technology to improve the quality of his products and thereby meet the changing demands of his customers. Because of the artistic nature of his products, he did not face much competition from large-scale industries. As the Fiscal Commission of 1949-50 pointed out, if social costs such as cost of housing, cost of social security, and cost of deviating from traditional modes of living were taken into account, the cost of production between cottage industries and large-scale industries would be considerably narrowed down. Even from the point of view of the private cost of production, technological progress was redressing the balance in favor of certain types of cottage and small-scale industries.

#### Large-Scale Industries

As stated earlier, the growth of modern industry in India began around the middle of the nineteenth century when the British businessmen started the plantation industry in some parts of the country by growing tea, coffee, and rubber. In order to move raw materials and their exports to England and to extend British rule to remote parts of the country, a first-rate railway system was created. The first railway line was opened in 1853 when the total mileage was only 20; by 1943-44 this rose to 40,512. The capital invested in railway industry in 1853 was only 380,000 rupees rising to

8.58 million rupees in 1943-44.<sup>18</sup> "During the period 1853-1947 about 37 railway systems had developed in the country; of these, seven large ones operated in the British Indian provinces."<sup>19</sup> The remainder of the small systems were operating in princely states.

The financing of railways was jointly undertaken with the help of British and Indian capital. Some of the large princely rulers such as the Nizam of Hyderabad and the Maharaja of Mysore spent fabulous sums on the construction of railways in their own states. In turn, the development of railways contributed significantly to the growth of organized industries in India. These railways were later on supplemented by highways, seaways for overseas communications including coastal traffic, and airways.

Large-scale industries listed earlier in this chapter had a major impact on the Indian economy. A brief description of some of these oldest and most powerful industries--namely, cotton textile, jute textile, iron, steel, coffee, and tea--is given in the following section which traces their growth and development and their role in the national economy.

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<sup>18</sup>India (New Delhi, 1955), p. 300.

<sup>19</sup>V. S. Ganganathan, Economic Geography of India (New Delhi, 1967), p. 82.



Cotton Textile Industry--The cotton textile industry is one of the oldest and the biggest in the country. Table I shows the growth of this industry between 1879 and 1947.

TABLE I  
GROWTH OF COTTON TEXTILE INDUSTRY, 1879-1947\*

| Year    | Number of Spindles (thousand) | Number of Looms (thousand) | Mill Production          |                             |
|---------|-------------------------------|----------------------------|--------------------------|-----------------------------|
|         |                               |                            | Yarn (million kilograms) | Piecegoods (million meters) |
| 1879-80 | 1,480                         | 13.3                       | . .                      | . . .                       |
| 1889-90 | 2,935                         | 22.1                       | . .                      | . . .                       |
| 1900    | 4,841                         | 40.5                       | 260                      | 54                          |
| 1911    | 6,095                         | 85.8                       | 283                      | 121                         |
| 1921    | 7,278                         | 133.4                      | 312                      | 1,315                       |
| 1931    | 9,078                         | 175.2                      | 421                      | 2,456                       |
| 1941    | 10,026                        | 200.0                      | 603                      | 3,445                       |
| 1947    | 10,354                        | 203.0                      | 597                      | 3,509                       |

\*Source: Ministry of Information and Broadcasting, Government of India, India (New Delhi, 1969), p. 321.

The cotton textile industry, which had its beginning in Bombay around 1845 with predominantly Indian capital and management, is notable largely since it grew with the help of Indian capital and under severe foreign competition and indifference from the British Indian government. The progress of this industry was rather slow in the beginning because the protective tariff was not granted to it until the 1920's. Nevertheless, the First World War stimulated expansion since the importing of foreign cloth was practically stopped during the war years.

This expansion continued after the war but at a slower pace. In 1921 the number of spindles increased to 7.3 million and the looms to 133,500 from the 1911 level when the number of spindles was only 6.1 million and the number of looms 85,800. Soon after the war the industry faced severe competition from Japan and was therefore granted protection in 1927.

During the 1930's the industry suffered seriously when its financial and physical condition weakened because of the Great Depression. World War II, however, brought considerable expansion because the industry played an important role in meeting the war needs. Moreover, since the importing of foreign material and goods completely stopped, the civilian population's demand for cotton textile goods had to be met entirely through domestic production. Even though the industry enjoyed an increased demand during war years, expansion of productive capacity was not possible since machinery could not be imported from abroad. And during the post-war years, expansion of existing capacity could not be undertaken rapidly because of a lack of adequate capital and the high costs of plant and machinery. The post-war expansion, therefore, was not much more than the pre-war level.

Jute Textile Industry--The jute textile industry, which occupies an important place in the national economy, was established near Calcutta around 1855 primarily with foreign capital and management. This industry, which grew

steadily right from its inception, was predominantly an export industry and provided the largest source of foreign exchange. The development of this industry during the British period is shown in Table II.

TABLE II  
GROWTH OF JUTE INDUSTRY, 1879-1947\*

| Year                           | Number of Mills | Authorized Capital (million rupees) | Number of Looms (thousand) | Number of Spindles (thousand) |
|--------------------------------|-----------------|-------------------------------------|----------------------------|-------------------------------|
| 1879-80 to 1883-84 (average)   | 21              | 27.1                                | 5.5                        | 88                            |
| 1899-1900 to 1903-04 (average) | 36              | 68.0                                | 16.2                       | 335                           |
| 1909-10 to 1913-14 (average)   | 60              | 120.9                               | 33.5                       | 692                           |
| 1925-26                        | 90              | 213.5                               | 60.5                       | 1,064                         |
| 1930-31                        | 100             | 236.1                               | 61.8                       | 1,225                         |
| 1937-38                        | 105             | 248.9                               | 52.4                       | 1,108                         |
| 1946-47                        | 106             | . . .                               | 66.0                       | 1,295                         |

\*Source: Ministry of Information and Broadcasting, Government of India, India (New Delhi, 1969), p. 322.

Cotton textile and jute were the only major industries which had developed substantially before World War I, and the war brought new impetus to both. The demand for jute products

increased considerably because of the necessity in various theaters of war for sand bags, jute canvas cloth, tent cloth, tarpaulins, wagon covers, and the like. The number of jute mills rose to 60 by 1914 as against 36 in 1904. But the post-war years were rather lean for this industry because of the reduction of demand for jute products to fill war orders.

The outbreak of World War II increased the demand for jute products, and monthly production rose sharply from 90,700 tons in September, 1939, to 125,700 tons in March, 1940. The peak of production was reached in 1941-42 at 1,279,000 tons; the number of jute mills increased from 107 in 1938-39 to 111 in 1945-46, whereas the number of looms increased from 67,900 to 68,300 and that of spindles from 1,350,000 to 1,445,000 during the same period.<sup>20</sup>

Iron and Steel Industry--Ancient India's iron and steel industry had been famous for centuries. The renowned Damascus steel, from which the blades, swords, and armor of the Crusaders were fashioned, came from India. The art of smelting, of welding, and of manufacturing steel was perfected centuries ago, and Indian steel found its way to Europe and other parts of the world. But political disintegration of the country followed by foreign conquest brought the downfall of this industry.

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<sup>20</sup>C. B. Mamoria, Organization and Financing of Industries in India (Delhi, 1960), pp. 310-311.

The beginning of this industry in modern times came after the establishment of the Tata Iron and Steel Company in 1907 at Jamshedpur in Bihar. The Indian Iron and Steel Company was formed the next year, the Mysore Iron Works at Bhadravati in 1923, and the Steel Corporation of Bengal in 1937. The government passed the Steel Industry (Protection) Act in 1924 providing protection against foreign competition.

World War II gave an opportunity to increase overall production. The Tata Iron and Steel Company began producing railway wheels, axles, special tool steel, bullet-proof armor plates, nickel chrome steel, and steel used in the manufacture of arms and ammunition. Indian steel was thus able to meet the war demands of the Middle East by the supplies from Jamshedpur.

Other organized industries which were established and which progressed during the first half of this century included plantation industries such as tea, coffee, and rubber as well as mining and manufacturing industries. Tables III and IV, pages 37 and 38, provide data on the growth of these industries.

It is evident that the impact of the policies of the government of British India on the industrial climate of the country during the current century was favorable on the whole. The preconditions for industrialization generally are considered to be an efficient civil administration, a modern legal and judicial system conducive to economic development,

TABLE III  
 PRODUCTION IN PLANTATION INDUSTRIES  
 1900-21 TO 1946-47\*

|                   | 1900-21 | 1930-31 | 1940-41 | 1946-47 |
|-------------------|---------|---------|---------|---------|
| Tea<br>(acres)    | 660,751 | 774,683 | 833,000 | 764,000 |
| Coffee<br>(acres) | 95,501  | 92,349  | 180,000 | 202,000 |
| Rubber<br>(acres) | . . .   | . . .   | 138,000 | 154,000 |

\*Source: C. B. Mamoria, p. 16.

a good transportation system, and a modern educational system; and certainly the British had a favorable impact on all of these areas.

The industries thus far established were, however, badly in need of a managerial system to aid in their growth. The government of British India helped to shape the organizational structure and management styles of the already existing joint stock companies in these industries by encouraging and strengthening the managing agency system. This system was thus the beginning of a new style of organization and management that permitted the growth of a large-scale firm.

TABLE IV  
PRODUCTION IN MINING AND MANUFACTURING INDUSTRIES

1921-1947 (tons)\*

|                | 1921       | 1931       | 1936       | 1946       | 1947       |
|----------------|------------|------------|------------|------------|------------|
| Coal           | 19,302,947 | 21,716,435 | 22,610,821 | 28,885,118 | 30,000,000 |
| Iron ore       | 942,084    | 1,624,885  | 2,526,931  | 2,407,682  | 2,498,459  |
| Steel ingots   | . . .      | . . .      | 881,981    | 1,293,291  | 1,255,849  |
| Sulphuric acid | . . .      | . . .      | 27,825     | 60,000     | 60,000     |
| Soda ash       | . . .      | . . .      | . . .      | 12,000     | 13,624     |
| Caustic soda   | . . .      | . . .      | . . .      | 2,900      | 3,314      |
| Cement         | . . .      | . . .      | 890,683    | 1,542,336  | 1,447,660  |
| Paper          | 26,689     | 40,714     | 48,486     | . . .      | 93,000     |

\*Source: C. B. Mamoria, p. 16.

## CHAPTER III

### MANAGING AGENCY SYSTEM

With the advent of the Industrial Revolution and then the arrival of the British in India, the foundation for large-scale organized industries was laid. The East India Company, which had been doing business in India since the seventeenth century, introduced the country to the form of business organization known as the joint stock company. The majority of the large-scale industries were private enterprises and were operated by joint stock companies created under the Indian Companies Act. A unique feature of industrial organization in India was that these companies almost invariably were organized by firms known as managing agents.

#### Origin and Growth

The managing agency system was a feature of business management peculiar to India. The Indian Companies Act of 1913 defined it as follows:

'managing agent' means a person, firm or company entitled to the management of the whole affairs of a company by virtue of an agreement with the company, and under the control and direction of the directors except to the extent, if any, otherwise provided for in the agreement, and includes any person, firm or company occupying such position by whatever name called:<sup>1</sup>

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<sup>1</sup>Indian Companies Act (New Delhi, 1913), Section 9A.



In view of this definition, the chief characteristics of the managing agent include the following:

(1) A managing agent in most cases was a firm which acted as an agent of a company and was thus under control of the Board of Directors of that company.

(2) The managing agent entered into an agreement with a company to undertake the management of that company in return for a certain commission on sale, output, or profits.

(3) Under the terms of this agreement, the management of the entire company was entrusted to the agent.

(4) A managing agent could manage and finance industrial firms other than that owned by himself.

(5) In most instances the managing agent could own shares of stock in the firms he managed.

The managing agency system, developed during the early British rule as a new form of business organization, was unique in that it was without an exact parallel elsewhere in the world. When British capital started flowing into India for the establishment of large-scale industries, competent managers were scarce. The agency houses formed by the ex-employees of the East India Company were first engaged in the import and export business and then gradually expanded their activities to include establishment and management of new, growing industries. They undertook all preliminary investigation and inquiry into the industry before promotion,

which in many cases took them a period of years. If they found the prospects of a new company to be bright, they floated shares for sale in the market. In the course of time they became promoters of some of the most important new industries such as jute, coal, tea, coffee, and rubber.

The managing agents were keen British businessmen who became aware of the potentialities of Indian industrial development and then tried to fill the vacuum created by the absence of managerial skill and industrial leadership. Because of this vacuum and the absence of an organized banking system, new companies could not be instituted. The promoters thus assumed the responsibilities of management and partially financed new firms: "The promoters took substantial blocks of shares, arranged for working finance and generally undertook the management of the affairs of the company, guaranteeing its commitments where required, and nursing the project till it was established."<sup>2</sup> Their role was equivalent to the functions of investment bankers in the United Kingdom, and industrial credit banks of Germany. There were several reasons for their acting as financiers; important among these were the absence of an organized capital market in the country and the cautiousness of Indian investors. This reluctance was caused by the investors'

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<sup>2</sup>The Company Law Committee Report (New Delhi, 1952), Volume I, Part II, p. 688.

lack of confidence in business and industry. The managing agents were able to create a certain measure of confidence among investors by taking a major portion of the shares of the newly promoted companies.

Managing agency firms were organized in four different ways: private firms, partnerships, private limited companies, and public limited companies. The early promoters of new developing industries first formed partnerships, often on a family basis, but later converted their firms into private companies. The firm would back a company and run it for a few years; and, when it was a well-established going concern, it would sell part of its interest but retain a sufficient share in it. Private firms and partnership firms, which operated on a small-scale, could not expand their activities and sizes because of limitations peculiar to these types of businesses. Hence there was a tendency to convert them into joint stock companies with limited liability, and practically all the old British managing agency firms did convert themselves into limited liability companies. Moreover, the high incidence of taxation on partnerships as against joint stock companies may be said to be another chief cause of such a development. Table V lists some of the largest managing agency firms who converted their organizations into limited liability companies.

TABLE V  
SOME GIANT MANAGING AGENCY FIRMS IN INDIA\*

| Firm                           | Founded<br>in Year | Conversion into<br>Limited Company<br>in Year |
|--------------------------------|--------------------|---|
| Duncan Brothers                | 1775               | 1948  |
| Gillanders Arbuthnot & Company | 1935               | 1947  |
| Anderson Wright Limited        | . . .              | 1948  |
| Kettlewell Bullen & Company    | 1927               | 1946  |
| Parry & Company                | . . .              | 1946  |
| Shaw & Company                 | . . .              | 1946  |

\*Source: C. B. Mamoria, Organization and Financing of Industries in India (Delhi, 1960), p. 483.

All these firms converted their businesses into public limited companies as defined under the Companies Act. As listed in Table V, the move toward conversion came after World War II when considerable expansion in business and industry took place.

During all these years the managing agency firms grew and prospered. Moreover, the agents were technical experts and efficient managers with a reputation for sound management and integrity.

Justification and Abuses of the  
Managing Agency System

The managing agency system which worked efficiently proved beneficial in many areas of business administration because it was able to maintain specialized departments to meet varied needs. Companies which could not afford to hire costly experts were able to take advantage of the expertise provided by the managing agents at a much lower cost. Moreover, economies in the employment of supervisory and administrative personnel could be effected by the managing agent since a single managing agency firm administered two or more companies simultaneously. It could give the same kind of technical and administrative skill to a small firm which only large firms could have afforded in the absence of such a system.

The centralized administration for several companies provided them with economies in the purchase of raw material, machinery and equipment, and other supplies. The system also helped in cutting down wasteful competition among companies managed by the same firm. Since the stockholders did not have direct power in the appointment of managing agents as they did in the elections of the Board of Directors, managing agents were able to pursue policies which, in their opinion, were in the best interests of the companies they managed without any outside interference.

They were thus able to achieve unity of management in joint stock companies in the country.

In spite of its great usefulness to the industrialization process of the country, the managing agency system also had several notable defects and weaknesses. The demand for the reform of this system developed from these defects.

Until the end of the first quarter of this century, managing agencies were organized on a private or partnership basis; these were inherited by the children of the founders. While the British managing agents hired experienced workers from outside, Indian managing agency houses depended purely on family help. The hereditary nature of these business firms then created problems of inefficiency because of a lack of knowledge of manufacturing, engineering, or technical know-how. For example, purchasing agents were appointed at the cost of the company, and sales were entrusted to ignorant wholesale agents who again were paid by the company. This hereditary system also brought stagnation and degeneration in industrial management since it left little scope for the use of outside talent. Many such firms thus failed to make improvements in their organization, factory management, administrative set-up, sales and purchase organization, and financial and accounting systems.

Indian industries were dominated more by financial considerations than by managerial and industrial ones. In

other words, finance became the master rather than a servant of the industry. Most managing agents were able to control many industrial firms not because of their managerial skill or ability but because they had the financial resources to help such firms. Often, however, they also had weak business organizations, inadequate and unsatisfactory machinery and equipment, and unqualified personnel. They frequently failed to adopt new techniques of management, and their organizations carried an excessive burden of fixed charges.

Another weakness was the monopolistic characteristic of the managing agents. Although they were legally under the control of the board of directors of the company they managed, they often obtained complete control of the firm, leaving no power to the board. Since the managing agent was often the promoter also, he managed to get his own men elected to the board. He also had a powerful influence over the board through voting power since he was the owner of a large number of shares of stock in the company. Too he was the holder of debentures and short-term creditors. Often he entrenched their position in companies so firmly that it was impossible for the shareholders to dislodge him. The Central Banking Enquiry Committee in its investigations found managing agents engaged in mismanagement of companies, juggling of accounts and orders, unfair purchases of raw materials, and crooked dealing in shares. They were found

to have taken advantage of a rise in prices of stock in order to sell them at top-level prices, leaving the public to take the loss. In this they not only played a dangerous game but also discharged the bonafide investor and gave industrial investment a bad name.<sup>3</sup>

Managing agents were also found guilty of misuse of funds in the companies they managed. These funds were used to make loans and advances to business associates and personal friends. Such advances or investments were made in other concerns for illegitimate purposes such as getting control over the board of directors or obtaining management agency rights in such concerns. They also controlled the policies of the board of directors of many industrial firms with respect to the creation of internal reserves, declaration of dividends, capital expenditures, and the like.

The concentration of management of several companies into one managing agency firm led to the practice of inter-investment of funds among these industrial concerns. This practice was quite common in the cotton textile mills in Bombay and Ahmedabad. Surplus funds in one concern, which otherwise could have been used in the growth and development of the firm showing the surplus, were invested permanently in other firms under the same agency. This practice

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<sup>3</sup>Indian Central Banking Enquiry Committee Report (New Delhi, 1931), Vol. 1, Part II, pp. 331-332.



deprived such profit-making companies from the use of their own legitimate funds and eventually hampered their growth. For example, records showed that on December 31, 1945, funds of Dalmia Cement Company Limited to the extent of forty-one million rupees were being used by another firm named Dalmia Cement and Paper Marketing Company Limited; on October 31, 1947, 107,000 rupees belonging to Dalmia Cement and Paper Marketing Company were being used by Rohtas Industries Limited. All these companies were under the control of the same managing agent.<sup>4</sup> While such dealings might have been helpful to the business firms involved, over long periods of time they were seriously unfair to the stockholders whose shares were transferred to inherently weak and insolvent concerns which should have been closed down in the interest of the whole industry. Inter-investment policies resulted in flutters in the money market and, consequently, shook the confidence of the investing public.

The managing agents also speculated heavily on the stock and produce exchanges through manipulation of company funds for personal gains. In addition, they manipulated the values of the company shares, causing their prices to rise in the stock exchange, and then sold their holdings in order to make high profits. The speculative character of such

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<sup>4</sup>Mamoria, pp. 492-493.

companies deprived the stockholders of legitimate income and often caused them losses.

The assignment or transfer of the managing agency agreement to incompetent parties, especially when the agent was in financial trouble, was also done, particularly in Ahmedabad where such assignment was allowed. Managing agency rights were treated as a marketable commodity and sold to the highest bidder regardless of his financial standing or the interest of the stockholders. This practice rendered the stockholders powerless and damaged the reputation of the companies thus managed.

Moreover, the managing agency system had difficulty in finding new methods of financing industries. Banks of course liked this system and often forced the companies to take managing agents so that they could have cosigners for the loans they granted the companies. The bankers thus were not interested in developing other methods of financing which would deprive them of cosigners for such loans.<sup>5</sup>

Managing agents were also criticized strongly for making excessive charges for such services as office or personal allowance or for a percentage commission on sales, purchases, profits, or output. The common practice was to pay a fixed monthly or annual salary regardless of whether the company did business during this period or whether it

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<sup>5</sup>Central Banking Committee Report, Vol. IV, p. 244.

incurred profits or losses. The office allowance, in many cases, became an additional source of revenue: "No other aspect of a managing agent's remuneration was subjected to more constant and uncompromising criticism by the representatives of shareholders, and the general public."<sup>6</sup>

The Taxation Enquiry Committee Appointed by the government of India studied 479 companies covering more than sixteen important industries. The Committee analyzed the payments to managing agents in these companies in 1946 and 1951 as indicated in Table VI.

TABLE VI  
PROFITS AND MANAGING AGENTS REMUNERATION  
IN 479 COMPANIES IN 1946 AND 1951  
SHOWN IN MILLIONS OF RUPEES\*

|                               | <u>1946</u> | <u>1951</u> |
|-------------------------------|-------------|-------------|
| Managing Agents' remuneration | 73.1        | 101.4       |
| Tax                           | 278.8       | 252.6       |
| Dividends                     | 155.1       | 206.2       |
| Retained Earnings             | 107.8       | 179.3       |
| Total                         | 614.8       | 739.4       |

\*Source: The Taxation Enquiry Committee, 1955

<sup>6</sup>Company Law Committee Report, pp. 96-97.

The percentage of profits paid to managing agents increased from about 12 per cent in 1946 to about 14 per cent in 1951. Although the average was 13.7 per cent, it varied from 21.5 in shipping, 20.3 in jute, 18.1 in textiles, 16.7 in electricity, 16.4 in coal, and 15.8 in cotton textile and sugar to only 0.3 in cement and 7.3 per cent in iron and steel.

Finally, the management of several of the most important industries was concentrated in a few managing agencies consisting of both British and Indian firms. Nine of the leading British managing agency firms operating in India were Andrew Yule, Mcleods, Martin, Bird, Jardine-Henderson, Duncan, Octavius Steel, Cillanders, and the British India Corporation. Some of the leading Indian managing agency firms were Tatas, Dalmias, Singhania, Kamplapats, Thapars, Ruias, Narangs, Bhadanis, Poddars, and Seksarias. The nine British firms controlled 250 industrial establishments, whereas Dalmias controlled only 40, Thapars 32, Tatas 29, and Birlas 24.<sup>7</sup> The system thus tended to concentrate economic power and wealth in the hands of a few.

It can therefore be stated that, in spite of some of its built-in weaknesses, early industrial growth in India would not have been possible without the managing agency

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<sup>7</sup>A. B. Das and M. N. Chatterji, The Indian Economy, Its Growth and Problems (Calcutta, 1961), pp. 215-216.

system. On the whole, the system contributed substantially to the process of industrialization in the country. The public had been demanding government action to eliminate the defects and combat the abuses of the system, but not much was done toward reforming the system during the British period.

As stated earlier, the managing agencies were pioneers of many large-scale industries in the country. From their inception, almost all of the managing agency houses operated under a tightly controlled, centralized organizational structure, and their management style remained mostly authoritative in nature. Abolition or public outcry against this system could have been avoided if the system had been reformed by the government and forced to operate according to the spirit of the law under which it was created in the first place.

## CHAPTER IV

### POLICIES AND ACTIONS OF THE NATIONAL GOVERNMENT

#### Adoption of Industrial Policy

Industrial advancement in a developing country can hardly be a self-induced process generated from within the industry itself. Seldom have industries made much progress without the help of the state in such an economy. For example, in Japan modern industrialization owes much to State support; in Germany also, the initiative and the fostering care of the State were responsible for industrial development. "One of the imperatives in the logic of industrialization is the building of the requisite organizations to combine natural resources, capital, technology, and labor for productive purposes."<sup>1</sup>

Likewise, the adoption of an industrial policy became necessary for economic planning in India. The logic for this policy was based on the following considerations: redistributing resources and channeling them into areas needing immediate attention; remedying the uneven development of the economy in order to obtain a more balanced growth; achieving a balanced distribution of income and

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<sup>1</sup>Ferederick Harbison and Charles A. Myers, Management in the Industrial World (New York, 1959), p. 117.

avoiding concentration of wealth and economic power in the hands of a few; controlling monopolies and strengthening the forces of competition; and conserving economic resources.

Throughout the nineteenth century the government policy of laissez faire which allowed severe competition from foreign, especially British, goods prevented the growth of industry. The real breakthrough for industrial development came with the appointment of the Industrial Commission in 1916 which was to conduct a comprehensive survey of Indian resources and industrial possibilities. The recommendations of this Commission and the policies of the Munition Board established in 1917, were responsible for the start of several new industries and the growth of the existing ones. Upon the recommendations of the Fiscal Commission appointed in 1921, a policy of protection for domestic industries was followed by the government which gave hope for the survival of many industries not able to stand in competition with foreign goods. World War II forced the government to take interest in the development of industries directly helpful in war efforts and other allied concerns. The establishment of the Board of Scientific and Industrial Problems was another step toward the liberalization of the government's policy. World War II thus brought a notable expansion in many of the industries in the country.

In 1946, the government of India appointed the Advisory Planning Board to decide, among other things, on the

boundaries between state-owned and privately owned enterprises. The Board, holding that rapid industrial development might not be possible if the state owned a large number of industries, suggested the nationalization of the coal, iron and steel, automobile, air and river transport industries. The Industries Conference held in New Delhi in December, 1947, under the chairmanship of the Minister of Industries and Supply adopted a resolution indicating which industries should be under state ownership, which under private ownership, and which under the joint ownership of both.

The first comprehensive policy announcement by independent India came with the resolution on industrial policy adopted by the national parliament on April 7, 1948, which laid down positive guidelines for industrial development. It envisaged a mixed economy with an overall responsibility by the government for planned development of industries and for their regulation in the national interest. Industries were classified into four categories: (1) industries over which government would have complete monopoly, such as arms and ammunition manufacture, control of atomic energy, and ownership and management of railway transport; (2) industries whose further development was the responsibility of the state except insofar as the cooperation of private enterprise was felt to be necessary, such as coal mining, iron, steel, aircraft manufacture, ship-building, the fabrication of



telephone, telegraph and wireless equipment, and mineral oil production; (3) industries which were left for private enterprise; (4) industries in which government regulation, planning, and control were considered important from the point of view of investment and the technical skill involved.<sup>2</sup>

In pursuance of this policy, concrete measures were taken by the government in the years that followed. In July, 1948, the Industrial Finance Corporation was established for financing large-scale industries. In October, 1948, several tax concessions were given to industry. For example, the import duty on plant and machinery was reduced by 10 to 15 per cent; new industries were exempted from payment of income tax on profits for five years; and depreciation allowances were liberalized. To determine a suitable fiscal policy, the Fiscal Commission was appointed in 1949; and upon a recommendation from this Commission, the Indian Tariff Commission was established in 1952. Nineteen National Laboratories and Institutes were established at different centers throughout the country; their functions included fundamental and applied research and testing in the areas of food, chemicals, minerals, metals, glass, engineering, heavy machinery, transportation, leather, electronics, and a host of others. The purpose of these laboratories was to conduct research which was beyond the resources of private industrialists.

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<sup>2</sup>India (New Delhi, 1955), p. 257.

Regulation of Industry

Under Industrial Policy

Consistent with the policy first announced in 1948, the Constitution of India was amended, and the Industries (Development and Regulation) Act of 1951 was enacted. The object of this act, which came into force in May, 1952, was to aid the government in the implementation of its policy for the planned development and regulation of industries. Schedule I of the act listed and classified industries into thirty-eight groups that were subject to regulation and that were required to be licensed by the government. The act authorized the government to examine the working of any such industrial undertaking, and in case of mismanagement, it was empowered to take over management and control. The act also empowered the government to secure equitable distribution and fair prices for any article produced by the scheduled industries. By exercising these powers, the government aimed at securing a proper utilization of the country's resources, a balanced development of large and small industries, and a proper regional distribution of the industries.

A Central Advisory Council of Industries was established under the provisions of the Industries (Development and Regulation) Act of 1951 to advise the government on development and regulation of the scheduled industries. In 1969,

eleven councils were functioning in eleven different groups of industries.<sup>3</sup> The councils--consisting of representatives of industrial firms, labor, consumers, and specialists--provided a forum for discussion of problems. Their functions were primarily to increase efficiency and productivity and to improve the services of the related industries. The Industries Act of 1951 was amended in 1953, 1956, and again in 1965 in order to expand its scope and enable the government to act promptly in emergency situations. The amendments also added a few more industries to its schedule. The Central Advisory Council advised the government on such important questions as the problem of finance for the rehabilitation of industry, the question of apprenticeship and training in business management, and the role of foreign capital.

Section 6 of the act also authorized the establishment of development councils. Nineteen development councils consisting of representatives of employees, employers, consumers, and specialists in various industrial fields were established in nineteen different industrial groups. Their functions, among other, included such things as recommending production targets, promoting standardization of products, facilitating the training of technical and skilled industrial personnel, improving business management practices, and

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<sup>3</sup>India (New Delhi, 1969), p. 311.

advising the government on industrial problems. These councils were later utilized for the formulation of development programs for the five-year plans.

The statutory Tariff Commission established in January, 1952, in place of the non-statutory Tariff Board reviewed from time to time the progress of protected industries and examined schemes of protection. The industries which were granted protection for the first time during 1952-53 included iron, steel, hydroquinine, machine screws, electric brass lamp holders, and ball-bearings, whereas protection was withdrawn from some industries such as dry battery, pencil, and metal button industries because they were able to stand on their own now.

To facilitate the creation of additional capacity to meet the rising internal demand and increase export potential, some industries--for example, iron and steel casting and forging, pulp, power alcohol, cement, plywood, tea, machinery, and paper for packaging--were exempted in 1966 from the licensing provisions of the Industries (Development and Regulation) Act of 1951; and a few other industries were exempted in 1968. In order to develop important industries for which sufficient capital had not been forthcoming in the private sector, the government gave financial assistance either by granting loans on special terms or by participating in equity capital. For example, the Directorate-

General of Supplies and Disposals, the Central Purchase Organization of the government of India, encouraged industry through its stores purchase policy. The value of purchases during 1967-68 amounted to 3,520 million rupees compared to 758.7 million in 1955-56 and 1,804.7 million in 1960-61.<sup>4</sup> Also the Industrial Finance Corporation was organized in 1948 for financing large-scale industries. Tax concessions were also given to industry through reduced import duty on machinery and equipment. Exemption from payment of income taxes were granted to companies, and depreciation allowances were liberalized. The Industrial Credit and Investment Corporation of India was established in 1955 to assist private businesses through loans and guarantees. The National Industrial Development Corporation was set up in 1954 to act, among other things, as an agency of the government for granting special loans for rehabilitation and modernization of cotton and jute textiles and for expansion of machine tool units. The Industrial Development Bank of India, established in 1964 as a subsidiary of the Reserve Bank of India, provided term finance to industrial units. It also served as a developmental agency to undertake promotional activities such as marketing, investment research surveys, technological and economic studies. It gave technical and administrative assistance to any industrial enterprise for promotion, management, or expansion.

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<sup>4</sup>Ibid. p. 311.

The National Productivity Council was established in 1958 to generate productivity consciousness in all spheres of economic activity and to render technological and managerial services. This was an autonomous body with representatives from management, labor, government and professional organizations. In order to utilize fully local initiative and talent, the Council established local productivity councils in almost all important industrial centers. It employed a team of specialists located in Regional Directorates at Bombay, Bangalore, Calcutta, Kanpur, Ludhiana, and Madras as well as in the headquarters at New Delhi. Managerial and technological services came through practice-oriented plant-level training programs. In addition to providing publicity, research, and consultation services, it maintained close liaison with organizations interested in productivity both within the country and abroad.

The Invention Promotion Board was established in 1960 to provide financial and technical assistance for the development of inventions and to award prizes to the deserving inventors. Another Board was set up in 1966 to provide incentives and public recognition to individuals and institutions offering practical ideas and schemes for import substitution.

The Indian Standards Institution functioned under the Ministry of Industrial Development, Internal Trade, and

Company Affairs; it defined national standards for commodities, materials, practices, and processes, and it also promoted standardization, quality control, and simplification in industry and commerce. The standards formulated by the Institution were utilized by various public and private sector organizations as the basis for their production procurement programs. It also operated the ISI Certification Marks Scheme under an Act of Indian Parliament and issued licenses to manufacturers for applying the Mark on their products as a third-party guarantee of quality. In addition, the Institution collaborated with several international standards organizations and supplied detailed training in standardization methods and techniques to company executives and technical personnel. Until the end of March, 1969, a total of 5,124 Indian Standards were published by the ISI, and 1,950 licenses covering 383 Standards were issued; also the ISI gave training to 638 technical personnel of 479 organizations within the country and 29 personnel of 7 neighboring countries.<sup>5</sup>

The problem of rapid economic development assumed great importance in India soon after independence was regained from the British Crown. A developing economy must fulfill certain pre-conditions before it undergoes a process of economic development; these include such essential requirements as

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<sup>5</sup>India, 1969, p. 312.

production, operation, and maintenance of mechanical equipment; adequate transportation, functioning of economic institutions including industrial establishments and businesses, stock and commodity exchanges, banks and other financial agencies, and trade unions. This process of economic development is likely to be rapid if the country and its government are able to proceed appropriately in the various directions required. The desire of the national government of India to bring about rapid economic development and to attain a position of dignity and importance in the community of nations was reflected, among other things, in its industrial policy. The industrial policy statement of 1948 laid down the ground rules for the achievement of these objectives. The government chose to follow the mixed economy philosophy which was reflected in its Industrial Policy Resolution of 1948, later amended and clarified in 1956. In following such a philosophy it was the intent of the national government to bring private enterprise into the framework of the social and economic policy of the State. It was also recognized that fair treatment and as much freedom as possible should be given to private undertakings consistent with the targets and objectives of the national plans. These principles of fair treatment and freedom of enterprise have been pursued rather steadfastly over the years since independence.



Also the councils, institutions, and various agencies established under the resolution in general and under the Industries (Development and Regulation) Act of 1951 brought about a better understanding and cooperation between the government and private enterprise. Before these policy actions were established, there was considerable difference of opinion between the government and private enterprise. In little more than a decade, there was a satisfactory relation between them with both segments working toward industrial development of the country.

Industrial licensing policies of the government, under which various industries scheduled in the Industries (Development and Regulation) Act of 1951 were required to be licensed, could be said to have been derived from various sources such as the Directive Principles of the Constitution, the mixed economy philosophy, and the five-year plans. These policies are not kept very rigid but are subject to quick changes owing to unforeseen and new economic developments which promise maximum industrialization of the country. This may in the future prove healthy for industrial growth.

#### \* Business Organization and Management

Governmental activities in a democratic society such as India are intended to institute, direct, and maintain a process of induced development. Under such a system, individuals and private institutions must take advantage of

these activities and must also take the initiative and accept increasing responsibility. The Indian Companies Act of 1913 laid the foundation for joint stock companies. This act underwent a series of amendments to provide for the growth of organized industries in the country; yet it was not able to eliminate several weaknesses in the organization and management of business enterprises in India.

Because of public demand for reforms in the managerial practices of private business in the country, the Company Law Committee was created by the government in 1950 to study joint stock companies and corporate practices and to make recommendations for legislative reforms. The Member-Secretary of the Committee, D. L. Mazumdar, was sent to the United Kingdom and the United States for an on-the-spot study of corporate practices and laws that might be helpful to the Committee in its work. Based on the recommendations of the Committee, the Companies Act was enacted by Parliament in 1956. According to C. D. Deshmukh, the Finance Minister who piloted the bill through Parliament, there were two main objectives of the act: first to bring the company law and practices in line with the new socio-economic environment of independent India and second to protect the interest of the shareholders against mismanagement and unfair corporate practices.<sup>6</sup> This was in keeping with the Directive Principles

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<sup>6</sup>Lok Sabha Debates, Vol. V, No. 13, Col. 9800 (New Delhi, 1955).

of the Indian Constitution. The act, amended in 1959, 1963, 1966, and 1969, currently contains 658 sections and 12 schedules.

Perhaps in no other country is the law relating to companies so detailed and voluminous, . . . Though company law does not deal with principles but with details and procedural matters, it has never been attempted to regulate in such minute detail, the formation, development and management of companies as the present Act does.<sup>7</sup>

Section 3 of the act allowed the companies to be organized into either private or public ones.<sup>8</sup> Management of a joint stock company was placed in the hands of the board of directors, but the act, under sections 252-388, authorized the appointment and use of four types of professional management--managing director, manager, secretaries and treasurers, and managing agent--which were not always easily distinguishable.

The managing director was a full-time director on the board of a company. He was chosen by the board which then delegated to him the authority to manage the affairs of the company on behalf of the board. In large companies there might be several managing directors in charge of various branches of the company. For such an appointment to be effective it must have the approval of the central government

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<sup>7</sup>N. C. Chatterjee and N. Krishnamurthi, Company Law (New Delhi, 1957), p. 1 and p. 9.

<sup>8</sup>The Companies Act, 1956 (New Delhi, 1966), pp. 12-13.

under section 269 of the act. A managing director could not be placed on more than one company unless such an appointment were made by a resolution of the board of the second company. Even then such an appointment must have the approval of the government of India, and his term of office must not exceed five years at a time.

A manager, under sections 384-388, could be appointed by the board either from among the directors or from outside. He was under contract with the company and operated under the control and direction of the board. The restrictions set forth for a managing director applied to a manager as well.

Secretaries and Treasurers could be appointed by the board under sections 378-383 of the act. The act stipulated that a company might appoint a firm or a body corporate which was not a managing agent to fulfill these functions. Basically, there was little difference between them and a managing agent; important differences between them could be traced from the act which prohibited an individual from holding the office of secretary and treasurer. Moreover, they were not, as were managing agents, limited to the management of ten companies only. On the other hand, they were entitled to appoint any directors to the board. The idea behind this provision was to reduce the power of the managing agents and to utilize the many-sided talents of groups of young and trained executives to assume the joint responsibility

of managing a company. Unfortunately, these hopes were not accomplished since managing agents still dominated the corporate management scene in the country. The relative importance of the existing forms of management is shown in Table VII.

TABLE VII  
FORM OF MANAGEMENT ADOPTED BY NEW COMPANIES\*

|                               | 1956-<br>1957 | 1957-<br>1958 | 1958-<br>1959 | 1959-<br>1960 | 1960-<br>1961 | 1961-<br>1962 |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Directors                     | 634           | 717           | 830           | 924           | 1,062         | 1,063         |
| Managing Directors            | 197           | 227           | 250           | 508           | 596           | 515           |
| Managers                      | 2             | 1             | 1             | 3             | 3             | 4             |
| Managing Agents               | 14            | 15            | 7             | 14            | 21            | 29            |
| Secretaries and<br>Treasurers | 1             | 1             | 7             | 3             | 1             | 3             |
| Total                         | 848           | 961           | 1,095         | 1,452         | 1,683         | 1,614         |

\*Source: The Fifth Annual Report on the Working and Administration of the Companies Act, 1956 (New Delhi 1961), p. 19.

During the year 1956-57, fourteen new companies chose the managing agency system for the management of their companies, and this number rose to twenty-nine in 1961-62. As opposed to this situation, the use of Secretaries and Treasurers was made by only one new company at first, but this figure rose to three in 1961-62. The government,

however, was more successful in inducing the new companies to make a larger use of managing directors, the number rising from 197 in 1956-57 to 515 in 1961-62; this increase reveals the increasing popularity of the managing-director type of management system among business firms in the country.

The fourth form of management, the managing agency system, deserves separate treatment because of its relative importance.

#### Reforms of the Managing Agency System

When the new Companies Act of 1956 was being drafted, special attention was given to the sections dealing with the managing agents because of a public demand for reforms in the system. When this act was finally enacted by the Parliament of India, Chapter III, consisting of 53 sections (sections 324-377), was devoted to managing agents. The Bhabha Committee which drafted this act wrote, "over the last quarter of a century, no other aspect of company law in this country has attracted so much interest and provoked so much controversy as the managing agency system."<sup>9</sup> The alleged abuses of the system and the unfair practices of the managing agents not only centered around their exorbitant remuneration but also included such practices as mismanagement of

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<sup>9</sup>Company Law Committee, p. 82.

corporate funds, auctioning of the managing agency contracts, interinvestment of funds between companies under one agency, succession to managing agency by inheritance, and abuse of power over the company.

Although there was strong agitation for the abolition of the managing agency system, the Indian Parliament decided to reform the system rather than abolish it. Some of the important reform provisions put in the Companies Act of 1956 were as follows:

1. A managing agent could be appointed only in a general meeting and with the approval of the central government.
2. No company was allowed to appoint a managing agent in excess of fifteen years for the first time, and ten years in case of reappointment.
3. All managing agency agreements in force on April 1, 1956, were to expire on August 15, 1960.
4. A managing agent was allowed to manage not more than ten companies after August 15, 1960, with the exception of a few types of companies.
5. A company in a general meeting may remove its managing agent if he were found guilty of fraud, breach of trust, gross negligence, or gross mismanagement.
6. A managing agent was not allowed to transfer his office to another person without the approval of the central government.

7. The office of managing agent may not be inherited without the approval of the central government as well as of the company in a general meeting.

8. The remuneration for the managing agent ordinarily was not to exceed ten per cent of the net profit, except when sanctioned by a special resolution of the company and approved by the central government.

9. The managing agent was not to receive any additional remuneration or commission for buying and selling of goods for the company, except under certain circumstances outside India.

10. Contracts of sale or purchase of goods between the managing agent and the company or the rendering of services, such as underwriting of shares or debentures, were valid only if sanctioned by a special resolution of the company and approved by the central government.

11. Guarantees and security for loans by the company to its managing agent was prohibited unless authorized by special resolution.

12. A managing agent was not allowed to engage in a competing business with the companies managed by him unless authorized by special resolution.<sup>10</sup> In addition to these main provisions, the Companies Act of 1956 also laid down

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<sup>10</sup>The Companies Act, Sections 324-377.



detailed provisions for the managing agent's appointment, term of duty, and dismissal.

Even a decade after the enactment of the Companies Act of 1956, the managing agency system remained controversial, and the demand for its abolition continued. The government of India, therefore, appointed the Managing Agency Enquiry Committee on January 4, 1965, under the chairmanship of I. G. Patel, Chief Economic Adviser to the government. In the notification of appointment, R. C. Dutt, Secretary to the government of India, stated, "the Central Government has had under consideration the question of deciding the future of the managing agency system, . . . particularly in view of the fact that the terms of office of a large number of managing agents are due to expire by August 1965. . . ." <sup>11</sup>

The Committee was assigned the task of inquiring into and reporting on the desirability of applying the provisions of sub-section 2 of section 324 of the Companies Act of 1956 to companies engaged in established industries. This section of the act conferred on the central government the power to abolish managing agencies in any class of industry or business. It also authorized it to decide which industry or business should not have managing agents.

The Committee selected five industries for inquiry--namely, cement, cotton textiles, paper, sugar, and jute

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<sup>11</sup>Report of the Managing Agency Enquiry Committee (New Delhi, 1966), p. 49.

textiles. Selection of these five specific industries was based on the assumption that they had been established in the country over a fairly long period and had already witnessed a substantial growth in relation to total needs. In view of the maturity they gained over the years, the Committee thought that they were in a better position to meet the challenge of expansion and change in the future. The main task then that the Committee assumed was to determine whether the managing agency system should be terminated or not in these five industries. This was an important responsibility bestowed upon the Committee since its recommendations would have far-reaching effects.

Arguments For and Against the  
Managing Agency System

The managing agency system, as it existed, encompassed a large number of typical situations which need to be distinguished one from the other. Some of the important types or stages may be distinguished as follows: (1) A family pioneering a company constituted a partnership to manage it as managing agents. (2) When the company got established, the managing agency rights were either passed on by inheritance to a growing number of people or were sold to outsiders. (3) A pioneer company grew, and its managing agents pioneered four or five other companies. In search of wider resources for further expansion, this business was then

converted from a sole proprietorship into a private or a public limited company. The pioneers obtained a managing agency agreement in the company with the active management to rest with a few persons in the agency. (4) This managing agency firm also acquired management rights over a number of other companies and used inter-company funds to do this. The managing agency firm thus became bureaucratic in nature. (5) Some of the small and medium-sized managing agency firms merged together and created a powerful complex of companies resulting in the concentration of extraordinary economic power.

The above-mentioned situations and types of managing agents clearly indicate the lack of uniformity and homogeneity in the nature of the managing agency houses. A judgement, therefore, on retaining or abolishing the system had to be made after examination of its impact on specific industries.

Two primary arguments were used against the retention of the managing agency system: First, it was responsible for undue concentration of economic power; second, it inhibited the growth of a professional managerial class and the emergence of greater vertical mobility among talented managers without business connections as an accident of birth. As far as the first argument is concerned, change in the management of a firm may break this concentration of economic power in the long run. In the second case one

might say that, although the new Companies Act of 1956 specifically prohibited the inheritance of a managing agency firm, in practice the son of an important managing agent might have inherited the shares of the company managed by his father or was invited to accept a position of importance in the firm. "The managing agency system in large part is the manifestation of the caste system and of communal and family exclusiveness in the sphere of management."<sup>12</sup> Moreover, in a family firm entry for outsiders may be difficult regardless of the form of management. Also the system does not help in the proper use and employment of available, trained management personnel.

The contribution of the managing agency system came essentially in three areas of business management--promotional, managerial, and financial. The question here is whether a similar contribution could be made in the future by an alternative form of management other than the managing agency system. Although the promoters have to be provided with adequate incentive to undertake a new venture in inaugurating a company, their reward does not necessarily have to be in the form of a managing agency agreement. A position on the board of directors of the new company could be just as attractive and rewarding. The board of directors form

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<sup>12</sup>Report of the Managing Agency Committee (New Delhi, 1966), p. 8.

of management has worked extremely well in many industrially advanced countries, particularly in the United States. Although there might be some problems in the beginning, they possibly could be resolved with will and determination.

In the area of managerial contribution by the managing agent, it is claimed that group management results in economies and better use of expensive managerial resources. This may not be true in most cases as shown in Table VIII.

TABLE VIII  
STRUCTURE OF MANAGING AGENCIES  
AS OF MARCH 31, 1965\*

| Number of<br>Companies<br>Managed<br>by Each<br>(1) | Number<br>of<br>Managing<br>Agents<br>(2) | Number of<br>Managed<br>Companies<br>(Col. 2 x Col. 1)<br>(3) | Paid-up Capital<br>of Managed<br>Companies<br>(million rupees)<br>(4) |
|---|---|---|---|
| 1   | 713                                       | 713   | 193.94  |
| 2   | 73  | 146   | 54.36   |
| 3   | 24  | 72  | 32.99   |
| 4   | 13  | 52  | 16.11   |
| 5   | 13  | 65  | 17.48   |
| 6   | 5   | 30  | 61.73   |
| 7   | 6   | 42  | 27.56   |
| 8   | 5   | 40  | 45.74   |
| 9   | 4   | 36  | 12.76   |
| 10  | 4   | 40  | 56.17   |
| Total   | 860                                       | 1,236   | 518.84  |

\*Source: The Ninth Annual Report on the Working and Administration of the Companies Act, 1956 (New Delhi, 1965).

On March 31, 1965, the vast majority of managing agents, consisting of 713 firms, managed only one company each, whereas there were only four managing agents who managed as many as ten firms each. This clearly indicates that the so-called economies of group management do not apply here. Another conclusion that could be drawn from the above data is that the managing agency system declined in popularity and gradually disappeared in favor of board management in India. This is also confirmed by the statistics provided in Table VII earlier in this chapter.

While the financial contribution of managing agents was no doubt important, it was highly exaggerated. The Reserve Bank of India, which is the central banking system of the country, made several studies on the sources of corporate funds of non-financial private business enterprises during the 1950's and the 1960's, the results of which were published in its bulletin. Table IX, pages 78 and 79, provides statistics on the sources of corporate funds.

The data in Table IX clearly show that internal financing was by far the most prevalent form used by these companies. Financing through loans from the banks and the statutory financial institutions together amounted to 510 million rupees in 1951-55 compared with only a small fraction of this figure loaned out by managing agents during the same period. Governmental support of these statutory institutions

TABLE IX

SOURCES OF CORPORATE FUNDS OF PRIVATE BUSINESS FIRMS IN INDIA\*  
(In Million Rupees)

| Sources of Funds                                      | 1951-55 |            | 1956-60 |            | 1961-64 |            |
|---|---------|------------|---------|------------|---------|------------|
|   | Amount  | % to Total | Amount  | % to Total | Amount  | % to Total |
| Paid-up capital                                       | 310     | 7.0        | 1,200   | 10.8       | 1,170   | 11.2       |
| Reserves and surplus                                  | 1,020   | 23.0       | 1,940   | 17.4       | 1,622   | 15.5       |
| Provisions  | 1,730   | 39.1       | 3,100   | 27.8       | 3,530   | 33.7       |
| Borrowings:   |         |            |         |            |         |            |
| (1) From banks  | 260     | 5.9        | 1,810   | 16.2       | 1,540   | 14.7       |
| (2) From statutory financial corporations             | 250     | 5.6        | 90      | 0.8        | 100     | 0.9        |
| (3) From others by way of debentures, mortgages, etc. | 70      | 1.6        | 1,020   | 9.1        | 320     | 3.0        |
| Trade dues and current liabilities                    | 160     | 3.6        | 1,670   | 15.0       | 1,510   | 14.4       |
| Miscellaneous and non-current liabilities             | 470     | 10.6       | 40      | 0.3        | -10     | . .        |
| Other sources:  |         |            |         |            |         |            |
| Loans from managing agents, fixed deposits, etc.      | 160     | 3.6        | 290     | 2.6        | 690     | 6.6        |
| Total   | 4,430   | 100.0      | 11,160  | 100.0      | 10,470  | 100.0      |

TABLE IX--Continued

|                                       | 1951-55 | 1956-60 | 1961-64 |
|---------------------------------------|---------|---------|---------|
| Number of companies studied           | 750     | 1,001   | 1,333   |
| Percentage of paid-up capital covered | 66      | 78      | 79      |

\*Source: Reserve Bank of India Bulletin, September, 1957; June, 1962; November, 1965.



and tax concessions provided for the repayment of institutional loans have made this kind of financing more and more popular among business firms. These figures, therefore, do not support the claim that managing agents were an important source of financing business. As a matter of fact, their role in this particular sphere was limited.

Finally, it can be concluded that, while the contributions of the managing agency system were often exaggerated, the weaknesses of the system were also overemphasized in many cases. The managing Agency Enquiry Committee was of the opinion that one real disadvantage of the system was its inability to further the establishment of a professional managerial class based on talent rather than on birth; this Committee also felt that the discontinuance of the system would facilitate the process of creating a growing class of managers drawn from a cross-section of society.<sup>13</sup>

The Managing Agency Enquiry Committee considered this important issue of retention or abolition of the managing agency system in five industries from the point of view of financing, equity investment of managing agents in the companies they manage, repayment of loans, and unemployment in case of discontinuance of the system.

The Committee then recommended the discontinuance of the managing agency system in the cotton textile, sugar,

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Report of the Managing Agency Enquiry Committee  
(New Delhi, 1966), p. 15.

and cement industries but favored its continuation in the jute textile and paper industries.<sup>14</sup> A brief discussion of these industries is given below to trace the reasons for these recommendations.

In Cotton Textile Industry. Although the cotton textile industry was well-established, it was facing problems of modernization which involved changes in the existing management, organization, and financial resources. In order to maintain its competitive position in the world markets, pressure for adopting modern techniques of management was also great. The managing agency system constituted the predominant form of management in this industry with 250 of the 720 textile mills in the country in 1964 being managed in this manner. Out of 229 managing agents operating in this industry, as many as 196 managed only one textile mill in 1964, whereas only one managing agent managed 10 companies. This clearly revealed that under this kind of organization in which one managing agency firm could manage two or more companies simultaneously, the economies of group management were irrelevant. The Committee felt that discontinuance of the managing agency system in this industry would not cause dislocation to the industry. In order to ensure a smooth changeover to an alternate form of management, it was

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<sup>14</sup>Ibid., pp. 17-42.

recommended that a period of five years should be given to this industry.

In Jute Textile Industry. The Jute textile industry was the foremost exporter in the country, contributing more than one fifth to the total export earnings. The industry had been able to consolidate its position in recent years, but there was still a need for modernizing and expanding the weaving capacity. Out of 96 companies in this industry, 44 were managed by managing agents in 1964, and the managed companies accounted for more than 70 per cent of the total paid-up capital in the industry. The economies of group management, as claimed by the managing agents, were more meaningful in this industry than in any other. The study made by the Committee of this industry showed that one of the major managing agency houses, for example, managed 10 companies as managing agents and 14 as secretaries and treasurers; another managed 8 companies as managing agents and 10 as secretaries and treasurers; and a third managed 10 companies as managing agents and 9 as secretaries and treasurers. In view of the economies of group management prevailing in this industry as well as its vulnerable competitive position, the Committee recommended that it should not be disturbed at the present time.

In Sugar Industry. The sugar industry, also one of the oldest and most well-established in the country, had grown

steadily and had been able to take care of internal demand as well as exports. In 1964, out of 192 sugar companies, 66 were managed by managing agents. In the study made by the Committee, out of 51 managing agents as many as 33 managed only one sugar company each; only 8 managing agents managed 4 or more companies. Thus group management was not significant in this industry. The Committee believed that the abolition of the managing agency system in this industry would have no adverse repercussions in the long run.

In Cement Industry. The cement industry had witnessed a remarkable growth in production and capacity. Production increased from 3.29 million tons in 1951-52 to 9.78 million tons in 1964-65. Out of 42 cement companies, 12 were managed by managing agents in 1964, and the paid-up capital of these 12 companies accounted for 84.6 per cent of the total for all cement companies. Obviously, the managing agency form of management was more predominant in this industry. Of these 12 managed companies, 10 were managed by 10 different managing agents, and only one managing agency firm was managing two cement companies. It was, therefore, justifiable to say that the economies of group management did not apply to this industry. The Committee recommended the discontinuance of the managing agency system in this industry and expressed the opinion that this move would not be detrimental to the growth and efficiency of the industry.

In Paper Industry. The paper industry in India, still a developing industry, was not yet fully established and partially depended upon imported newsprint and specialty papers. Out of 188 paper companies in 1964, 26 were managed by managing agents. Fourteen managing agents managed only one company each, whereas four managed four or more companies in 1964. The Committee felt that of the 26 managed companies, only 7 could be said to be enjoying economies of group management. The Committee recommended then the retention of the managing agency system in this industry, since it felt that it was not well-established enough to withstand any change in the organizational and managerial setup at that time.

The Committee also believed that an industry-by-industry approach to decide on the future of other industrial groups might not be necessary in the future. As could be seen from Table X, pages 85 and 86, there were only a few major industries in which the managing agency system might survive in the future.

The data in Table X reveal that only a few major industries, such as electricity and tea, would retain the managing agency system in the future. The percentage of paid-up capital of the managed companies to the total ranged between 44 and 85 per cent in 7 out of 14 industrial groups in this table, and out of these seven groups, the Committee had already made recommendations concerning five.

TABLE X

COVERAGE BY MANAGING AGENTS IN IMPORTANT INDUSTRIAL GROUPS  
AS OF MARCH 31, 1964\*

| Industrial Group<br>(1)                          | Number of Companies |           |          | Paid-up Capital<br>(million rupees) |           |            | % of<br>Column 5<br>to<br>Column 6<br>(8) |
|--|---------------------|-----------|----------|-------------------------------------|-----------|------------|---|
|  | M<br>(2)            | NM<br>(3) | T<br>(4) | M<br>(5)                            | NM<br>(6) | T**<br>(7) |   |
| 1. Cement  | 12                  | 30        | 42       | 391.9                               | 71.4      | 463.3      | 84.6                                      |
| 2. Electricity<br>generation<br>and supply       | 78                  | 149       | 227      | 319.3                               | 120.4     | 439.7      | 72.6                                      |
| 3. Jute  | 44                  | 52        | 96       | 257.8                               | 106.2     | 364.0      | 70.8                                      |
| 4. Sugar   | 66                  | 126       | 192      | 320.7                               | 204.8     | 525.5      | 61.0                                      |
| 5. Cotton textiles                               | 250                 | 470       | 720      | 970.9                               | 706.6     | 1,677.5    | 57.9                                      |
| 6. Paper and<br>paper products                   | 26                  | 162       | 188      | 270.7                               | 283.8     | 554.5      | 48.8                                      |
| 7. Tea plantation                                | 124                 | 450       | 574      | 154.7                               | 199.9     | 354.6      | 43.6                                      |
| 8. Medical and<br>pharmaceutical<br>preparations | 21                  | 636       | 657      | 30.9                                | 239.0     | 269.9      | 11.4                                      |
| 9. Iron and steel                                | 25                  | 554       | 579      | 604.9                               | 4,964.0   | 5,568.9    | 10.9                                      |
| 10. Engineering                                  | 70                  | 1,493     | 1,563    | 274.6                               | 2,359.5   | 2,634.1    | 10.4                                      |
| 11. Coal mining                                  | 55                  | 371       | 426      | 101.9                               | 1,427.9   | 1,529.8    | 6.7                                       |

TABLE X--Continued

| Industrial Group<br>(1)                             | Number of Companies |           |          | Paid-up Capital<br>(million rupees) |           |            | % of<br>Column 5<br>to<br>Column 6<br>(8) |
|---|---------------------|-----------|----------|-------------------------------------|-----------|------------|---|
|   | N<br>(2)            | NM<br>(3) | T<br>(4) | M<br>(5)                            | NM<br>(6) | T**<br>(7) |   |
| 12. Printing,<br>publishing, book-<br>binding, etc. | 12                  | 1,075     | 1,087    | 5.8                                 | 114.6     | 120.4      | 4.8                                       |
| 13. Chemical<br>fertilizers                         | 9                   | 56        | 65       | 25.5                                | 524.8     | 550.3      | 4.6                                       |
| 14. Wholesale trade                                 | 32                  | 3,914     | 3,946    | 25.3                                | 1,147.9   | 1,173.2    | 2.2                                       |

\*Source: Report of the Managing Agency Enquiry Committee (New Delhi, 1966), pp. 43-44.

\*\*M--Managed, NM--Non-managed, T--Total.

Notable among the governmental agencies established for the enforcement and operation of laws pertaining to business and industry was the Board of Company Law Administration. The Companies (Amendment) Act of 1963 authorized the establishment of this Board. Operating with the help of four regional offices, the Board received and investigated complaints from stockholders, company employees, and creditors and referred them to New Delhi for disposal. This kind of decentralization in the government's authority was not only desirable but proved more effective. The act also required the central government to submit to Parliament annual reports on the working and administration of the act. These reports have proved to be the most reliable information on the operation of companies over the years. On the other hand, the bureaucratic nature of these agencies created problems of coordination of work activities and delayed action.

The national government, in reforming the management of joint stock companies after independence, had one primary purpose in mind; that was to restore the board of directors to its rightful place of power and responsibility in the company. This it was able to do through the abolition of the managing agency system and the creation of other alternate forms of management. The act provided new powers for the directors; at the same time it curbed such abuses as interlocking directorates, nepotism in company affairs, pursuance of self-interest, irregularity in calling meetings



of the board, and the like. While the intent was to curb interlocking directorates, the act allowed that one person could not be on more than twenty companies. This seemed to be an unusually high number when such a number rarely exceeded ten in British and American companies. Nevertheless, the Companies Act achieved its primary objective.

The decision of the government to abolish the managing agency system gradually upon the recommendations of the Managing Agency Enquiry Committee was in line with public opinion. It was also in line with the changing economic and social environment of the country. The creation of new sources of industrial finance by the central and state governments, such as the Industrial Credit and Investment Corporation and the Industrial Finance Corporation, to provide financial assistance to new as well as existing industries left no need for the companies to seek financial aid from the managing agency houses. Also, by this time the development of a strong equity market displaced the need for using managing agency houses. And in the area of technical services, the need for managing agents was more or less eliminated by the central and state governments through the establishments of such agencies as the National Productivity Council, Invention Promotion Board, and Indian Standard Institution. Moreover, several Indian companies took advantage of technical assistance programs offered by several foreign countries by sending their

employees abroad for technical training. In the light of these new opportunities available to them, Indian entrepreneurs withdrew their support of the managing agency system. Thus the government, business enterprises, and the public together brought about the downfall of the system.

#### Alternate Forms of Management

If the managing agency system was abolished gradually (as is happening) there were two important considerations. First, what should be done during the transitional period? Second, what alternate forms of management were available to fill the vacuum? Concerning the first question, the Managing Agency Enquiry Committee recommended that, in order to minimize the disturbance and dislocation caused by the discontinuance of the system, the central government and the financial institutions should stand ready to support such industries in every way possible.<sup>15</sup>

Concerning the second question, the Companies Act of 1956 provided an answer. Part VI of the act, as explained earlier, provided three alternate forms of management-- namely, the Board of Directors with or without a manager, the Secretaries and Treasurers, and the Managing Director.

In some companies the managing agents were replaced as secretaries and treasurers because of the limit of ten on

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<sup>15</sup>Report of the Managing Agency Committee, p. 16.

the total number of companies that a managing agent could manage. This meant for all practical purposes the continuation of the same kind of system that existed before. Secretaries and treasurers under certain sections of the Act were allowed to draw a maximum remuneration of  $7\frac{1}{2}$  per cent of the net profits of the company they managed as opposed to 10 per cent for managing agents. This again meant no appreciable difference between the two systems. In view of this situation it is important that government should examine carefully all such cases where the termination of the managing agency was automatically replaced by secretaries and treasurers.

Although at one time the office of secretaries and treasurers was considered as a suitable alternative to the managing agent, it did not prove attractive enough to the new companies formed in recent years.

The act stipulates that a company could have no more than two managing directors and that each could draw a remuneration of up to five per cent of the company's profits. A person was not allowed to be a managing director in more than two companies which allowed for the diffusion of managerial responsibility. The total managerial costs to the company for two managing directors, however, would be ten per cent, the same as for one managing agent. Here again it seems important to check whether the termination

of a managing agency is being replaced by two managing directorships. In such cases the qualifications of the new managing directors have to be checked thoroughly and their remuneration should be fixed accordingly. A careful examination of their powers, qualifications, and remuneration is essential to rid this system of any inequities.

Finally, in order to have a positive approach to the whole problem of business management, it seems highly desirable to encourage private business and consulting firms through fiscal and other measures to train larger managerial cadres from all walks of life. Such details will have to be considered before any thorough reforms in the present organizational and managerial system can be effected.

#### Management Styles

The development of management styles in modern business firms in India was affected by the ideas and philosophy of Mahatma Gandhi and then later his close followers, outstanding among whom was Jawaharlal Nehru. Gandhi believed in an equal economic growth for the villages as well as the cities of India. His major emphasis in industrializing India centered around development of village communities and with them rural and cottage industries. He wrote,

A humanitarian industrial policy for India means to me a glorified revival of hand-spinning, for through it alone can pauperism, which is belighting the lives of millions of human beings in their own cottages in

this land, be immediately removed. Everything else may thereafter be added, so as to increase the productive capacity of this country.<sup>16</sup>

By keeping the village artisans and craftsmen employed in this manner, Gandhi believed that the lot of the rural workers, who remained unemployed three to four months out of the year, could be improved. These workers would be adding to the national wealth which otherwise would be wasted. He did not believe in mass industrialization in and around cities but rather in the revival of village communities through supporting cottage and small-scale industries. He abhorred the social and economic evils of a mass factory system.

Gandhi also believed in the democratization of the country's economic and social institutions starting at the village level. In speaking of democracy in action, he wrote,

Independence must begin at the bottom. Thus, every village will be a republic or Panchayat having full powers. It follows, therefore, that every village has to be self-sustained and capable of managing its affairs even to the extent of defending itself against the whole world. It will be trained and prepared to perish in the attempt to defend itself against any onslaught from without. Thus, ultimately, it is the individual who is the unit.<sup>17</sup>

A "Panchayat" is a form of local government at the village level in India; it consists of a few, mostly between eight

<sup>16</sup>M. K. Gandhi, Industrialize--And Perish, Compiled by R. K. Prabhu, (Ahmedabad, 1966), p. 56.

<sup>17</sup>Ibid., p. 70.

to fifteen in number, members periodically elected by the adult villagers to form a working party under a leader.

Gandhi believed in the individual as an integral part of a free, democratic society. In an ideal Gandhian society there could be no high or low positions. This kind of philosophy which Gandhi advocated during the days of struggle for freedom from the British was later assumed by his followers in the newly formed democratic Republic of India. "Panchayats" were formed in the villages throughout the country after independence to further decentralization of authority, abolition of old forms of inequalities, and establishment of a peaceful social system through mutual understanding and service.

Nehru was the man chosen by Gandhi to guide the destiny of India after independence; he did so for a period of seventeen years as its first Prime Minister. As a true follower of Gandhian philosophy, he exerted his influence in shaping the economic, social and political life of the nation. The problems of trade, finance, credit control, industrial growth, management of enterprises, and the like were examined by the national government, and policies were decided upon under the personal leadership of Nehru. He took a keen interest in the preparation of economic plans. With the help of these plans, Nehru wanted to introduce changes in the technological structure of the society to bring about rapid

economic growth and solve urgent social problems. He attracted a flow of scientific knowledge from all countries regardless of their political philosophies. During his seventeen years in office almost three five-year plans were completed.

Though Nehru's industrial policies differed in many ways from Gandhi's ideas, nevertheless, he put Gandhi's ideas into practice in many areas. For example, Gandhi's commitment to bring no harm to any legitimate British interests in India after independence was respected by Nehru as reflected in the Industrial Policy Resolutions of 1948 and 1956 which gave guarantee to foreign interests. Other examples are development of small-scale and cottage industries, use of "Panchayats" in the establishment of local governments, social welfare, eradication of untouchability, and land reforms. Democratic decentralization of power through "Panchayat," which had its roots in several villages throughout the country even long before independence, was revived by the national government after independence. Newly developing industries attracted to the cities more and more rural labor who carried with them the democratic ideas which they had learned in village "Panchayats." This had an impact on the shaping of management styles along democratic lines in the new plants as well as in the older organizations which were mostly autocratic and/or bureaucratic in nature.

In India employee satisfaction as well as productivity have been accepted as goals of industry. At the shop level productivity has three important considerations--the degree of flexibility of the organization in adapting to changing conditions relating to men, machines, and materials; the degree of intergration of shop activities; and the nature and quality of the supervision of workers. In this connection employee satisfaction becomes an important element in maintaining high-level productivity. A study made in 1957 of engineering industries in India determined that about 23 per cent of the workers were satisfied with the terms and conditions of their services, 33 per cent dissatisfied, and the remaining 44 per cent had an average amount of satisfaction.<sup>18</sup>

In conclusion, the type of leadership provided to a work group is perhaps the most important single factor affecting its morale and productivity, and Indian business firms are making gradual progress toward democratization of their organizations. The democratic ideas advocated by Gandhi and accepted by Nehru, which were incorporated into the policy of the national government, had an impact not only on government but on business and industry. These ideas paved the way for organizational structure and management

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<sup>18</sup>H. C. Ganguli, Structure and Processes of Organization (New York, 1964), pp. 163-171.



styles along more democratic lines. Although the managing agency system was replaced by various alternate forms of management, the managing directorship became the most predominant form of business management. The basic organization style of management adopted by this group came from the old managing agency system upon which the new system was built.

## CHAPTER V

### ECONOMIC PLANNING IN INDIA

#### The Five Year Plans

Economic planning is here assumed to mean the plans formed by a central authority for the systematic and balanced development of the productive resources of the country. The central objective of economic planning in India has been defined as initiating

a process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life. . . . Economic planning has to be viewed as an integral part of a wider process aiming not merely at the development of resources in a narrow technical sense, but at the development of human faculties and the building up of an institutional framework adequate to the needs and aspirations of the people.<sup>1</sup>

The government of India organized and appointed a Planning Commission in March, 1950, which was entrusted with the task of preparing a plan for the most effective and balanced utilization of the country's resources. The basic terms of reference of the Commission were taken from the following Directive Principles of State Policy embodied in the Constitution:

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<sup>1</sup>Ministry of Information and Broadcasting, Government of India, India (New Delhi, 1955), p. 123.

a) that the citizens, men and women equally, have the right to an adequate means of livelihood;

b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;

c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.<sup>2</sup>

The Constitution also placed a special responsibility on the Union Government for the coordination of facilities and the maintenance of standards in respect of university and technical education.

64. Institutions for scientific or technical education financed by the Government of India wholly or in part and declared by Parliament by law to be institutions of national importance.

66. Co-ordination and determination of standards in institutions for higher education or research and scientific and technical institutions.<sup>3</sup>

Until 1945 education was a part of the Department of Health and Agriculture. Starting in 1947 the government of India created a separate Ministry of Education under a Cabinet Minister and placed upon it a responsibility for the coordination of facilities and the maintenance of standards in respect of university and technical education. The Ministry was split up into six divisions, notable among these were administration and university education, technical and scientific education, scholarships and information, basic social education, and secondary education. The

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<sup>2</sup>The Constitution of India, Government of India, Ministry of Law, Part IV, Article 39.

<sup>3</sup>Ibid., Seventh Schedule, List I-64, 66.

Ministry, among others, cooperated with such bodies as United Nations Educational, Social, Cultural Organization.

The government of India appointed the University Education Commission in 1948 to survey the entire field of university education and to suggest improvements. The Commission, among other things, also recommended that universities must provide leadership not only in politics and administration, but also in the various professions, industry and commerce. This report was generally accepted by the government.

#### The First Five-Year Plan

In July, 1951, the Planning Commission issued for public discussion a draft outline of the First Five-Year Plan. The final version of the Plan, covering the period 1951-1956, was submitted to Parliament in December, 1952. This Plan was conceived only as the first in a series to be directed toward raising substantially the economic and social standards of the Indian people.

The long-term objective of the planning was to double the per capita income by 1977 from the base year 1950-51. The Commission calculated that during the Plan period the national income could go up from about 90,000 million rupees in 1950-51 to about 100,000 million rupees, a rise of about 11 to 12 per cent. It was also visualized that the proportionate rate of saving of the national income would have

to go up from 5 per cent in 1950-51 to  $6\frac{3}{4}$  per cent in 1955-56, 11 per cent in 1960-61, and 20 per cent in 1967-68.<sup>4</sup> These calculations were based on these basic assumptions: (1) that population would continue to grow at the rate of about  $1\frac{1}{4}$  per cent per annum as in the last decade, (2) that a unit increase in national output and income would require about three times as much by way of additions to capital stock and that the increased output would materialize in the third year from the data of investment, and (3) that there was scope for choosing the proportion of additional income in each period that would be ploughed back into investment according to the rate of development desired, the measure of austerity involved, and the institutional changes necessary.

The Plan proposed a total outlay of 20,690 million rupees by the public authorities over the period 1951-56. The distribution of expenditure on different sectors is summarized in Table XI, page 101.

Agricultural development, irrigation and power, and transportation and communications received high priority under this plan since 17.5, 27.1, and 24 per cent was allocated to these sectors, respectively. Investment in industries by the public authorities was limited to 8.4 per cent of the total outlay. This means that industrial

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<sup>4</sup>The Planning Commission, The First Five-Year Plan (New Delhi, 1952).

TABLE XI  
DISTRIBUTION OF EXPENDITURES OF THE PUBLIC  
SECTOR UNDER THE FIRST FIVE-YEAR PLAN\*

| Sectors                                       | Outlay<br>During 1951-56<br>(million rupees) | Percentage<br>of Total |
|---|--|------------------------|
| Agriculture and<br>community development      | 3,610  | 17.5                   |
| Irrigation                                    | 1,680  | 8.1                    |
| Multipurpose irrigation<br>and power projects | 2,660  | 12.9                   |
| Power   | 1,270  | 6.1                    |
| Transportation and<br>communication           | 4,970  | 24.0                   |
| Industry                                      | 1,730  | 8.4                    |
| Social services                               | 3,400  | 16.4                   |
| Rehabilitation                                | 850  | 4.1                    |
| Miscellaneous                                 | 520  | 2.5                    |
| Total   | 20,690                                       | 100.0                  |

\*Source: The Planning Commission, The First Five-Year Plan, (New Delhi, 1952).

expansion during the plan period was largely left to private initiative and resources.

The Commission also distributed the total planned outlay between the center and the states and between the major developmental sectors. Out of 20,690 million rupees of the developmental expenditure, more than one-third, 7,380 million, was to come from the savings from current revenues, 5,200 million from capital receipts, and 1,560 million from external sources making a total of 14,140 million rupees. The balance of 6,550 million rupees had to

be found from external sources, or internal taxation and borrowing, and by deficit financing.

The public sector, however, covered only a part of the economy. The Commission made it clear that the progress of the development programs was dependent upon the integrated results of the public sector as well as the private sector of the economy. The plan also set production targets to be achieved by 1955-56 in public and private sectors of the economy. For example, in 1950-51 foodgrains productions was 52.7 million tons, and the targets for 1955-56 were set at 61.6 million tons; irrigation and power supplied 50 million acres in 1950-51, and the target for 1955-56 was set for 69.7 million acres; iron and steel production was 1.3 million tons in 1950-51, and the target was for 2 million tons in 1955-56; power alcohol production in 1950-51 was 4.6 million gallons while the target for 1955-56 was 18 million gallons. Targets were also set for 1955-56 in several industrial groups, transportation, number of hospitals, schools, technical and vocational education centers, and so forth. Appendix A provides detailed figures on the targets and achievements under the Five-Year Plans.

The Planning Commission reviewed the progress and achievements of the First Five-Year Plan and published their findings in 1957. The original plan provided for a total expenditure of 20,690 million rupees which was later

increased to 23,780 million. Targets of production, as distinct from capacity, were more or less reached in the case of cotton textiles, sugar, cement, vegetable oils, paper, soda ash, caustic soda, rayon, electric transformers, sewing machines, and petroleum refining. Agricultural output showed striking improvement during the five-year period. The output of foodgrains in 1955-56 was 64.9 million tons which was about 3 million tons above the projected target. The expected levels of production were not reached in the case of finished steel, aluminum, machine tools, fertilizers, diesel engines and pumps, automobiles, radios, electric motors, jute textile, and power alcohol.<sup>5</sup>

Although it is difficult to assess completely the reasons for nonachievement of physical targets in certain areas, the following are possibilities: Upward adjustments of 1953-55 aimed at increasing employment were fictitious; the judgment used by the planners in fixing targets was over-optimistic; total investment in the economy did not grow steadily as the planners had hoped; and the railways failed to make their expected contribution. There were, however, outstanding achievements in the industrial field such as the diversification of production and the manufacture of quite a few new products. The new manufactures included staple fiber and cellulose acetate filament, calcium carbide,

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<sup>5</sup>The Planning Commission, Review of the First Five-Year Plan (New Delhi, 1957).



hydrogen peroxide, rare earthen compounds, caustic soda and ammonium chloride, penicillin, D.D.T., newsprint, automatic looms, steel wire ropes, jute spinning frames, deep well turbine pumps and motors, and transformers.

In looking at the overall results, one might conclude that the achievements under this plan were quite satisfactory. And on the whole, the plan was a success. Four and a half million new jobs were created. National income, at constant prices, had increased by 18.4 per cent from an estimated 88,500 million rupees in 1950-51 to an estimated 104,800 million rupees in 1955-56. Per capita income, also at constant prices, had risen by 10.8 per cent, while per capita consumption increased by about 8 per cent. In spite of inflationary trends during the last year of the plan, prices were 13 per cent lower in 1955-56 than they had been in 1950-51. The Planning Commission wrote in 1956 that "the economic situation on the eve of the second plan is distinctly better than it was on the eve of the first plan; there is more confidence and greater readiness all around for a larger effort."<sup>6</sup>

An allocation of 1.6 billion rupees was made during the First Five-Year Plan for the expansion of educational facilities at the Center and in the States. Roughly about 35 per cent of this was contributed by the central government and

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<sup>6</sup>The Planning Commission, Government of India, The Second Five-Year Plan (New Delhi, 1956), p. 5.

the rest was to be matched by the State governments. These figures were, however, raised a little as the plan progressed. The plan recognized the overcrowding in the universities, and recommended that only such students should be selected for higher education as have a special aptitude for it.

In short, the First Plan laid heavy emphasis on the role of local authorities and voluntary organizations in addition to meeting special responsibilities in the fields of higher and technical education that the central government assisted in selected programs of national importance in these areas. It broke the ground for further expansionary work in the field of education. Further discussion of the work done by the national government in the promotion of management education under each five-year plan is discussed under a separate heading at the end of this chapter.

#### The Second-Five Year Plan

The First Five-Year Plan through its emphasis on agriculture, irrigation, power, and transportation aimed at creating the base for a more rapid economic and industrial advancement. On the other hand, the Second Five-Year Plan dated 1955-56 to 1960-61, placed emphasis on the development of basic and heavy industries and defined the key role the public sector was to play in the economic development of the country. The principal elements of the plan were a large increase in investment in organized industries by government,

expansion of the public sector, enlargement of industrial capacity in heavy industry by government, partial or complete nationalization of certain industrial and commercial activities, large-scale subsidization of cottage industries, massive assistance to cooperative movement and state participation in it, various institutional changes, especially rural land reform, and close and direct control over the private sector.

As stated above, the main emphasis in this plan was on industrial development rather than on agriculture as in the First Plan. There was 10,943 million rupees allocated for new investment during the second plan period out of which 5,350 million were required to be made by the private sector. The Planning Commission explained that the greatly increased provision for investment by the state in the industrial undertakings was in accordance with the revised Industrial Policy Resolution of April 30, 1956.<sup>7</sup> The National Industrial Development Corporation, a governmental agency, played a prominent role in carrying out these industrial programs.

The order of priorities to be followed in the industrial field during this second period primarily emphasized the expansion of capital and producer goods industries so that the foundations of further industrial progress might be

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<sup>7</sup>The Planning Commission, Programmes of Industrial Development 1956-61 (New Delhi, 1959), p. vi.

firmly laid. Dealing with industrial priorities, the Commission stated that the next phase in the expansion of industrial capacity was to be conceived in terms of the following priorities: (a) increased production of iron and steel, heavy chemicals, heavy engineering, and machine building industries; (b) expansion of capacity in respect to developmental commodities and producer goods such as aluminum, cement, fertilizers, and drugs; (c) modernization and re-equipment of jute, cotton textiles, and sugar industries; (d) fuller utilization of existing installed capacity in industries where there were gaps between capacity and production; and (e) expansion of capacity for a whole range of consumer goods industries to be developed by the initiative and enterprise of the private decentralized sector of industry.<sup>8</sup> Out of these, expansion of the iron and steel industry had the highest priority because the Commission thought that the levels of production of these materials determined the tempo of progress of the economy as a whole. Emphasis was also placed on the establishment of organizations which could undertake the task of preparing designs for plant and equipment required by heavy industries.

The total outlay of 10,940 million rupees for industrial expansion by public and private sectors is shown in Table XII, page 108.

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<sup>8</sup>The Planning Commission, Government of India, The Second Five-Year Plan (New Delhi 1956), Chapter XIX.

TABLE XII

## BREAK-UP OF TOTAL INDUSTRIAL OUTLAY DURING THE SECOND PLAN\*

| Industrial Groups   | Outlay<br>(million rupees) | Percent of<br>Total Investment |
|---|----------------------------|--------------------------------|
| Metallurgical industries--<br>iron, steel, aluminum,<br>and ferro-manganese | 5,025                      | 45.9                           |
| Heavy engineering   | 1,500                      | 13.7                           |
| Chemicals   | 1,320                      | 12.0                           |
| Cement, electric porcelain,<br>and refractories                             | 930                        | 8.5                            |
| Petroleum refining  | 100                        | 0.9                            |
| Paper   | 540                        | 5.0                            |
| Sugar   | 510                        | 4.7                            |
| Cotton, jute, woolen, and<br>silk yarn                                      | 363                        | 3.3                            |
| Rayon and staple fiber  | 240                        | 2.2                            |
| Others  | 415                        | 3.8                            |
| Total   | 10,943                     | 100.0                          |

\*Source: The Planning Commission, Programmes of Industrial Development, 1956-61 (New Delhi, 1959), p. ix.

The list of industries in Table XII has been arranged in a descending order according to the priorities laid down by the Commission, with the group on top carrying the highest priority among the rest of the groups listed. The Commission was able to predict that by 1958-59 the total outlay for the five-year period of the plan would reach 45,000 million rupees as envisaged by the National Development Council in November, 1958.<sup>9</sup> In the end of the allotted time, the total outlay amounted to about 46,000 million rupees.

Targets of production were more or less achieved by 1960-61 in the case of foodgrains, cotton, sugar, pig iron, machine tools, paper machinery, diesel engines, electric cables, and electric motors; but the expected level of production was not achieved in the case of steel, cement, aluminum, fertilizers, locomotives, cotton textiles, automobiles, and electric transformers.<sup>10</sup> In industry, the overall picture was much brighter than in agriculture with the index of every single industrial group rising substantially during this period. For example, the general index of industrial production rose from 78.4 in 1956 (base year 1960=100) to 109.1 in 1961, while that of machinery rose

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<sup>9</sup>The Planning Commission, Plan Resources and Outlay, A Review (New Delhi, July 1959), pp. 77-78.

<sup>10</sup>A. H. Hanson, The Process of Planning (London, 1966), pp. 164-66.

from 52.2 to 121.2.<sup>11</sup> Over the second period, national income increased by 20 per cent, falling only five per cent short of the planned target.

### The Third Five-Year Plan

The Third Five-Year Plan, dated 1961-62 to 1965-66, was unlike the other two plans in that it laid down the following long-term objectives to be attained by 1975-76: (i) a cumulative rate of growth as near as possible to 6 per cent per annum in order to secure more than a doubling of national income (from 145,000 million rupees in 1960-61 to 340,000 million rupees in 1975-76 at 1960-61 prices) and a 61 per cent increase in per capita income, (ii) the creation of employment outside agriculture for more than 46 million persons in order to reduce the proportion of population dependent on agriculture from about 70 per cent to about 60 per cent, and (iii) the provision of universal education up to the age of 14 as envisaged in the Constitution.

The immediate main objectives of the Third Plan were as follows: (i) secure an increase in national income of over 5 per cent per annum, (ii) achieve self-sufficiency in foodgrains and increase agricultural production to meet the

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<sup>11</sup>Ministry of Information and Broadcasting, Government of India, India (New Delhi, 1969), p. 321.

requirements of industry and exports, (iii) expand basic industries such as steel, chemicals, fuel, and power and establish machine-building capacity so that the requirements of further industrialization could be met within a period of ten years, (iv) utilize to the fullest possible extent the manpower resources of the country and insure a substantial expansion in employment opportunities, and (v) establish progressively greater equality of opportunity and bring about reduction in disparities in income and wealth and a more even distribution of economic power.

The Third Plan envisaged a total investment of 104,000 million rupees, out of which 63,000 million were allocated to the public sector and 41,000 million to the private sector. Table XIII, page 112, shows the breakdown of the public and private sectors' investment by major heads.

It is evident from the data provided in Table XIII that the largest single share of investment under the public sector went to organized industries in the amount of 15,200 million rupees, transportation 14,860 million rupees, and agriculture 6,600 million rupees; this was 24.7 per cent, 16.7 per cent, and 14 per cent each of the public sector total, respectively. Private sector's contribution to the total outlay amounted to about 64 per cent of the total public sector's outlay.



TABLE XIII  
 DISTRIBUTION OF PUBLIC AND PRIVATE SECTORS OUTLAYS  
 UNDER THE THIRD PLAN (million rupees)\*

| Industrial Group                                | Public Sector | Private Sector | Total   |
|---|---------------|----------------|---------|
| Agriculture and community development           | 6,600         | 8,000          | 14,600  |
| Major and medium irrigation                     | 6,500         | . . .          | 6,500   |
| Power   | 10,120        | 500            | 10,620  |
| Village and small industries                    | 1,500         | 2,750          | 4,250   |
| Organized industry and minerals                 | 15,200        | 10,500         | 25,700  |
| Transportation and communication                | 14,860        | 2,500          | 17,360  |
| Social services, inventories, and miscellaneous | 8,220         | 16,750         | 24,970  |
| Total   | 63,000        | 41,000         | 104,000 |

\*Source: India, 1969, pp. 208-217.

Achievements in the Third Plan fell short of target in almost all areas of economic activity, as indicated by the following figures: Foodgrains production in 1965-66 was only 72.3 million tons compared with a target of 100 million tons; cotton 4.7 million bales as against a target of 7 million bales; and jute 4.5 million bales as against a target of 6.2 million bales; steel ingots 4.6 million tons as against 9.2 million target; cement 10.8 million tons as against 13.2 million target; and coal 70 million tons as against 98.6 million target.<sup>12</sup> (Appendix I supplies further information on this point.) A governmental publication in citing reasons for the inability to reach the projected goals, stated that a record harvest was raised in 1964-65, which was a year of favorable weather conditions. But in the subsequent two years, the output fell sharply because of widespread drought conditions.<sup>13</sup> As a result of increased use of high yielding varieties of seeds, chemical fertilizers, pesticides, and irrigation coupled with the incentive of higher prices, agricultural production showed a sharp increase in 1967-68. While output in organized industries increased by 8 to 10 per cent during the first four years

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<sup>12</sup>D. C. Barjatiya, Current Economic and Commercial Problems (Agra, 1968), p. 264.

of the plan, in 1965-66 it came down to 4.3 per cent because of the war between India and Pakistan. During the third period, therefore, the growth rate worked out to about 7.9 per cent per year compared to the target of 11 per cent envisaged.

During the Third Plan, national income at 1960-61 prices rose by 20 per cent in the first four years and declined by 5.7 per cent in the last year. Per capita real income in 1965-66 was about the same as in 1960-61 because the 2.5 per cent growth of population per annum completely neutralized the growth in national income.

The Third Plan has been criticized as being over-ambitious and not related to the grim realities that existed in the country during the period, and it was felt that planners must reappraise their policies. As Hanson stated, "so much has already been accomplished that it would be a tragedy if the world's outstanding example of democratic planning were allowed to run into the sands, for want of taking a fresh thought and changing direction."<sup>14</sup>

#### The Fourth Five-Year Plan

At the completion of the Third Plan, the Planning Commission did not immediately prepare the Fourth Five-Year Plan; instead, three Annual Plans 1966-69 followed the third one. The severe criticism of the Third Plan by the public,

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<sup>14</sup>A. H. Hanson, The Process of Planning (London, 1966), p. 231.

economists, and industrialists and businessmen forced the Commission to change its strategy. Also, severe strains had been developing in the economy because of hostilities with China in 1961 and with Pakistan in 1966. In addition, the devaluation of the rupee in mid-1966 led to a period of readjustment.

In 1966-67 the index of industrial production (base year 1960=100) increased by 1.7 per cent and in 1967-68 by just 0.3 per cent. This was caused by a setback in agricultural production which resulted in reduced purchasing power, stagnation in investment, and shortage of foreign exchange for industry. The stagnation was more pronounced in capital goods industries. Accordingly, the Government took several steps to bring about industrial recovery by 1968. These included adoption of policies on import liberalization following devaluation; decontrol of commodities such as steel, coal, paper, fertilizers, and commercial vehicles; and delicensing of a number of industries. Consequently, industrial production showed an increase in and diversification of productive capacity in spite of fluctuations and stagnation conditions in recent years. Steel, aluminum, machine tool, industrial machinery, electrical and transportation equipment, power generators, fertilizers, drugs and medicines, petroleum products, cement, and several consumer goods gained in production capacity.

Thus the industrial structure was strengthened for future industrial plans.

The draft Fourth Five-Year Plan laid down its objectives as follows: provide productive employment to all, build buffer stocks of foodgrains to stabilize prices, and sustain a 7 per cent annual increase in exports. A major objective of the plan was to create employment opportunities in the rural and urban sectors on an increasing scale. Another important aspect of the plan was to give support at a much higher level to institutional finance for rural development.

The draft Fourth Plan envisaged a total investment of 222,520 million rupees, comprising 122,520 million in the public sector and 100,000 million in the private sector. The pattern of investment laid down under this plan is shown in Table XIV, page 117.

Under this plan the largest allocation of 52,050 million rupees was made to organized industry and minerals; the industrial groups which had the next largest share were transportation and communication 41,430 million rupees and agriculture 34,670 million rupees.

The draft Fourth Plan assured an annual rate of growth of 5.5 per cent in national income and 3 per cent in per capita income. The first year of its operation was 1969-70; therefore, the record of achievements will not be known until 1975.

TABLE XIV  
 DISTRIBUTION OF PUBLIC AND PRIVATE SECTORS OUTLAYS  
 UNDER THE FOURTH PLAN (million rupees)\*

| Industry Groups                    | Public Sector | Private Sector | Total   |
|------------------------------------|---------------|----------------|---------|
| Agriculture and allied sectors     | 16,670        | 18,000         | 34,670  |
| Irrigation and flood control       | 9,500         | . . .          | 9,500   |
| Power                              | 20,850        | 500            | 21,350  |
| Village and small industries       | 1,840         | 5,000          | 6,840   |
| Organized industry and minerals    | 30,550        | 21,500         | 52,050  |
| Transportation and communication   | 31,330        | 10,100         | 41,430  |
| Social services and other programs | 11,780        | 27,300         | 39,080  |
| Inventories                        | . . .         | 17,600         | 17,600  |
| Total                              | 122,520       | 100,000        | 222,520 |

\*Source: India (New Delhi, 1969).

Twenty Years of Economic Planning--  
A Critical Evaluation

Economic planning which was started in India in 1951 was a result of the deep convictions of many Indians that rapid economic development was not possible without it. The primary objective was to raise living standards through an increase in national income so that new opportunities for a richer and more varied life could be provided to the people.

Although the First Five-Year Plan showed a marked improvement in the level of production, both in agriculture and industry, it did not remedy several problems such as the following: (1) This increase in production did not reduce unemployment noticeably. As against the total addition of ten million people to the labor force, the plan claimed to have provided employment for only 4.5 million. This might have been caused by the fact that the rate of growth of investment did not keep pace with the rate of growth of labor force. (2) The First Plan could not achieve its social objectives. The economic inequalities between the poor and the rich actually increased. This plan did prove beneficial to business, but it resulted in the concentration of economic power at the top layers of the business hierarchy. And the government failed to take proper steps in bringing about an equitable distribution of national income. (3) Disproportionately greater attention was given to agriculture at the expense of industry. In doing this, the Planning

Commission apparently assumed that Indian industries were fully developed and so agricultural development would receive priority, but this assumption was highly unjustified. The industrial sector of the plan was thus utterly neglected.

(4) The plan emphasized long-term irrigation projects excessively although economic trends and action had not yet been determined.

In spite of the fact that the Second Five-Year Plan was bigger and bolder, it also was not devoid of weaknesses such as the following: (1) The planners again failed to make use of idle manpower resources, particularly in the rural areas, even though such action could have partially solved unemployment problems. Surplus rural labor could have been utilized in road-building, irrigation work, building work, and land reclamation projects. Also no efforts were made to increase productivity of employed labor. (2) The Second Plan failed to narrow economic inequalities among the masses. It benefited industrialists, big businessmen, and the privileged classes more and neglected the poorer sections of the population as a result of widening inequalities in the distribution of national wealth. (3) Nothing substantial was done in the area of land reforms during the plan period. (4) The Second Plan concentrated on industry at the cost of agriculture. The original target of food grains at 75 million tons was later found to be quite inadequate to meet



the country's requirements. This was revised to 80.4 million in 1956. (5) The planners were rather over-optimistic in setting up original targets which could be one of the reasons that the expected level of production in some industries such as steel, cement, aluminum, cotton textiles, and automobiles was not achieved. (6) The target on national income was not achieved. Although national income rose by 20 per cent during the plan period, it fell short of the projected target by 5 per cent. (7) Government failed to hold down the price level. During the plan period there had been a net rise of 30 per cent in the price level which affected the cost of living tremendously. This was caused partly by the fact that government resorted to deficit financing to the extent of a total of 110 million rupees during the five-year period which deteriorated the standard of living of the common man and failed to eradicate his level of poverty.

The Third Five-Year Plan was rather modest in size, but it too had problems such as the following: (1) Although the plan envisaged an investment target on 104,000 million rupees, the actual physical size of the plan was impaired because of the constantly rising price-level. (2) The Third Plan could offer no relief to the masses from the burden of rising prices because no effective machinery was created for control. (3) The taxation policy proposed by the Planning Commission to raise additional funds relied upon indirect

taxes asserting that the scope for further direct taxation was already exhausted. But in view of the fact that many direct taxes which could have been levied upon the rich section of the population were not utilized fully, this reasoning was difficult to accept. These indirect taxes hit the poor middle classes, and they were already overburdened with the existing taxes. (4) This plan also contained no specific policy for combating unemployment. At the termination of the First Plan the unemployment figure was five million, which rose to nine million by the end of the Second Plan and to twenty-six million by 1961. The Third Plan provided employment for about 14 million which still left 12 million jobless. This meant that at the end of this plan unemployment was even higher than at the end of the Second Plan. Thus unemployment became the most urgent and important problem of the country; yet the Planning Commission was unable to initiate a meaningful program to curb it. (5) Another significant weakness was the inadequate organization for the implementation of planned programs. Little attention was given to the preparation of an adequate number of trained personnel required in the various fields of activity.

One of the reasons advanced for the poor performance of the first three Five-Year Plans was the higher growth rate of population. There is no doubt that, out of the 68.7 per cent increase in national income during the period 1951-65,

41.7 per cent was neutralized by rise in population which left only 27 per cent for increase in per capita income. This was only part of the problem which could have been dealt with more effectively with proper planning.

The results of the Fourth Five-Year Plan, which was started in 1969, will not be known until 1974-75. It will be worthwhile for the planners to reexamine some of the weaknesses of the previous plans and try to reappraise their planning strategy and techniques.

To summarize, planning performed a major service in bringing about economic development in India. It had a favorable effect on the expansion of productive capacity in agriculture and industry. Although the plans failed to achieve the production targets set in several areas of economic activity, the overall picture was not so gloomy since the index of industrial production rose continuously during the plan periods. The experiment in democratic planning by India no doubt suffered some setbacks, but in comparison with the gains made in several areas of economic and social activities, the setbacks do not seem so serious. Some of these setbacks occurred because of the difficulties created by overpopulation; but as Lamb stated, "overpopulation is, of course a relative matter. The important factor is how people in question are making (or trying to make) a living. In general, industrialized areas can

support a far larger population than agricultural areas."<sup>15</sup> And India's efforts basically are geared toward industrialization.

The impetus thus provided by the economic plans to the development of business and industry stemmed mostly out of the policies of the national government. Business firms in general welcomed this growth and were willing to change their organizational and management styles to bring these in line with the aspirations of the people and the policies of the government.

#### The Plans and Management Education

The process of industrialization in India accelerated by democratic planning has created a great need for developing high-level managerial resources in the country. Skilled and qualified executives with drive, initiative, imagination, and the power of reasoning are more in demand now than ever before. Management of businesses can no longer be carried out solely on the basis of tradition or native ability partly because of the large work force now involved. The number of workers now employed in factories, excluding managerial staff, increased continuously with each successive five-year plan. In 1951 the total number of workers in factories was only 2.5 million; this rose to 3.9 million in

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<sup>15</sup>B. P. Lamb, India, A World in Transition (New York, 1966), p. 272.

1961, and 4.7 million in 1967. And these figures do not include workers in plantations, mines, construction, light and power, transportation and communication, and retail and wholesale trades.

The efforts and policies of the government of India have been directed toward the growth of both public and private sectors of the economy. It was mentioned in the Industrial Policy Resolutions of 1948 and 1956 that government reserved certain industries for government investment but left a wide variety for private enterprise also. Private sector is, therefore, an important part of India's business scene.

The organized power of Indian management is represented through various organizations such as the Indian Chamber of Commerce and Industry, All-India Organization of Industrial Employers, Employers Federation of India, All-India Manufacturers Organization, Bombay Mill Owners Association, Ahmedabad Mill Owners Association, Indian Jute Mill Association, Indian Tea Planters Association, Indian Mining Association, and several other regional and local industrial associations.

In order to prepare the society for the growing responsibility that it has to share under a rapidly advancing industrial economy, the government concentrated on mass education and accorded it the highest priority in all the

plans. During the twenty years of plans there has been a notable advance in education in all directions. Under a Directive Principle of the Constitution, free and compulsory elementary education is to be provided for all children up to the age of fourteen. A number of steps were taken by the central government to fulfill this obligation. Education is primarily the responsibility of the State governments; the central government is concerned with the coordination of educational facilities and determination of standards in respect of higher education and with research and scientific and technical education. Special Commissions and Committees appointed by the central and State governments submitted their reports recommending reforms in elementary, secondary, and university education, and the Central Advisory Board of Education laid down the general education policy. There have also been special inquiries into such technical areas as agriculture; civil, mechanical, and electrical engineering; medicine and public health.

The Center and the State governments evolved a working partnership to implement educational development plans. Most of the schemes were formulated and implemented by the State governments under the guidance and assistance of the Center. The achievements under the first three plans and the targets for the Fourth Plan are shown in Table XV, pages 126 and 127.

TABLE XV

## ACHIEVEMENTS AND TARGETS IN EDUCATION UNDER THE FOUR FIVE-YEAR PLANS\*

| Particulars  | Achievements                             |                                    |  |                                    |   | Targets                     |  |
|--|--|------------------------------------|--|------------------------------------|---|-----------------------------|--|
|  | 1950-51<br>Beginning<br>of First<br>Plan | 1955-56<br>End of<br>First<br>Plan | 1960-61<br>Beginning<br>of Second<br>Plan. | 1965-66<br>End of<br>Third<br>Plan | 1968-69<br>Beginning<br>of Fourth<br>Plan | Fourth<br>Plan<br>1969-1974 |  |
| Number of pupils in<br>classes IX to XI<br>(in millions)   | 1.26                                     | 1.98                               | 3.03                                       | 5.19                               | 6.59                                      | 10.40                       |  |
| Number of pupils at<br>the university<br>stage: arts,<br>science, and<br>commerce (in<br>millions) | .31                                      | .55                                | .74  | 1.23                               | 1.69                                      | 2.66                        |  |
| Percentage of total<br>population in<br>age group 17-23  | 0.8                                      | 1.5                                | 1.5  | 2.3                                | 2.9                                       | 3.8                         |  |
| Number of training<br>schools  | 728                                      | 930                                | 1,138                                      | 601                                | ..  | ..                          |  |
| Number of training<br>colleges   | 53                                       | 107                                | 478  | 1,272                              | ..  | ..                          |  |

TABLE XV--Continued

| Particulars  | Achievements                             |                                    |   |                                    |   |                             |
|--|--|------------------------------------|---|------------------------------------|---|-----------------------------|
|  | 1950-51<br>Beginning<br>of First<br>Plan | 1955-56<br>End of<br>First<br>Plan | 1960-61<br>Beginning<br>of Second<br>Plan | 1965-66<br>End of<br>Third<br>Plan | 1968-69<br>Beginning<br>of Fourth<br>Plan | Fourth<br>Plan<br>1969-1974 |
| Number of arts,<br>science (including<br>research insti-<br>tutions), and<br>commerce colleges | 542                                      | 772                                | 1,122                                     | 1,891                              | 2,163                                     | ..                          |
| Number of<br>universities  | 27                                       | 32                                 | 45  | 64                                 | 75  | ..                          |

\*Source: Ministry of Information and Broadcasting, Government of India, India, 1970, p. 63.



In the field of professional education, the plans made specific recommendations in regard to the development facilities for research and post-graduate work. Courses for various types of technology, including business management and industrial relations, were initiated in various universities. Under the supervision of the All-India Council for Technical Education, arrangements were made for the expansion of training facilities at the artisan and craftsman level. Apprenticeship schemes were introduced, refresher courses were organized, and training centers were established to raise the level of village artisans. During the plan years there had been a steady rise in the number of educational institutions in the country. For example, during the year 1950-51 the number of primary schools was 209,671, and this rose to 399,109 during 1968-69; the number of secondary schools rose from 7,288 to 32,433.

In order to help achieve the educational goals, funds were allocated. The distribution of expenditures in the first three plans and the outlay for the Fourth Plan are shown in Table XVI on page 129.

Post-secondary education in India is imparted through arts, science, professional and special education colleges, research institutions and universities. Besides universities, there are a large number of institutions such as the Birla Institute of Technology and Science, the Indian

TABLE XVI

EXPENDITURES ON EDUCATION UNDER THE PLANS\*  
(in million rupees)

| Major Head                  | First Plan | Second Plan | Third Plan | Fourth Plan |
|-----------------------------|------------|-------------|------------|-------------|
| Elementary education        | 850        | 950         | 1,790      | 2,347.4     |
| Secondary education         | 200        | 510         | 1,030      | 1,183.2     |
| University education        | 140        | 480         | 870        | 1,835.2     |
| Other educational schemes** | 340        | 790         | 2,270      | 2,860.8     |
| Total                       | 1,530      | 2,730       | 5,960      | 8,226.6     |

\*Source: Ministry of Information and Broadcasting, Government of India, India, 1970, p. 63.

\*\*Includes Social (Adult) Education Scholarships, Cultural Programs, Technical Education, and other miscellaneous schemes.

Agricultural Institute, the Indian Institute of Science, the Indian school of International studies, the Tata Institute of Social Science, and the Indian School of Mines. All of these are deemed to be universities for the purposes of the University Grants Commission Act of 1956.

The National Council of Educational Research and Training established in 1961 promotes research in all branches of education, organizes advanced preservice and on-the-job training, disseminates improved techniques and practices, and organizes extension service for institutions engaged in educational research and training. The four Regional Colleges of Education, through which the Council developed its programs, imported from other countries the integrated four-year teacher-training courses in business administration, science, and English. The Education Commission of the government of India secured the services of eminent educators and scientists through the United Nations Educational, Social, and Cultural Organization and from the United States and the United Kingdom. Their recommendations were widely discussed by educators and Parliamentarians; out of the consensus of opinion was formulated a national policy on education issued by a government resolution in 1968.

Modern methods of management are being adopted by Indian managers in place of old methods and techniques. In order to help to create a class of professional managers, government

is extending its helping hand in the organization of refresher courses, seminars, workshops, and technical programs to reshape talent already available in private business. Universities, colleges, and technical institutes are starting new programs of management and introducing courses of practical value in the areas of accounting, finance, banking, management, marketing, and economics. The Administrative Staff College at Hyderabad has functioned for about two decades in developing managerial talent among public and private enterprises.

In order to generate a consciousness of efficiency and higher productivity, the National Productivity Council was established in 1958 by the government in New Delhi with a network of forty-seven local productivity councils in almost all important industrial centers. The councils conduct training programs for managers and plant workers and act as consultants to the companies in their research and other related programs. The Indian Standards Institution imparts training in standardization methods and techniques to company executives and technical personnel. Other such programs of management education have already been discussed in Chapter IV.

A study was conducted by the United Nations Educational, Social, and Cultural Organization Research Center at New Delhi of business firms at two business centers, Calcutta

and Bombay. The study revealed that, even in family undertakings, the top and middle-level executives are now being selected on the basis of capacity and skill and not on the basis of their connection with the inventor or entrepreneur.<sup>16</sup>

Although the central government has done much to educate the people of India, there is still a large illiterate class. According to the 1961 census the population of India was 439,072,582 which showed an increase of 21.51 per cent over 1951. Out of this total, only 24 per cent of the people were literate. In the area of higher education, figures suggest an urgent need for improvement. In 1950-51 the number of students enrolled in vocational and technical schools was 187,194; this rose to 401,274 in 1960-61. A large majority of the managerial population of India is urban-born and of middle class origin. This group is education-conscious and, consequently, tries to earn suitable training to seek managerial or professional positions or high civil service jobs in the future. For this reason they are more mobile than any other class.

During the fifteen years of economic planning, the number of institutions of higher learning specializing in education for business increased from about 500 to over

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<sup>16</sup>N. Das, Spotlight On Indian Economic Problems (Calcutta, 1961), pp. 114-115.

2,000. The creation of governmental agencies responsible for imparting technical business training and for providing free consultation services to business firms increased the management training opportunities available to practicing businessmen throughout the country. Consequently, the impact of these educational policies of the government was to bring into private business firms more professional managers who were better qualified, more efficient, and more democratic in structuring organizations and shaping management practices.

## CHAPTER VI

### IMPACT OF THE POLICIES OF THE NATIONAL GOVERNMENT ON BUSINESS ORGANIZATION AND MANAGEMENT STYLES

In order to determine the impact of the national government's policies on business, a survey of a selected number of business enterprises in India was conducted. This survey was carried out with the help of a questionnaire designed to study organizational and structural changes that occurred in these firms. In addition to this, data were also collected on management practices pertaining to several areas affecting the work force.

#### Description of the Questionnaire

The questionnaire, reproduced in Appendix B, is divided into the following parts: Part I--Structure and Organization; Part II--Men, Motivation, and Morale; Part III--Management-Labor Relations; Part IV--Government and Industry; and Part V--Outlook for the Future.

Part I of the questionnaire was designed to determine the year of the firm's origin, the nature of its business, the size of its capital stock, assets, and annual sales. Since the questionnaire was mailed during Fall 1970, figures for the year 1968-69 were requested. Because the managing

agency system pioneered many of the large-scale industries in the country, the views of the respondents were invited on the retention or abolition of the system under the changing business environment. In addition, questions pertaining to the organizational structure and management practices affecting the firm were also asked in this section.

Questions in Part II were designed to elicit information on management styles; workers' resistance to change; worker motivation and morale; managements' policies pertaining to recruitment, promotion, dismissal, and handling of grievances. Usually the respondents were asked to check or circle their answers; occasionally, however, they were required to write brief answers. Questions were also provided to determine the methods that management used to motivate its employees, such as cash bonuses, noncash incentives, linking of wages with consumer price index, and so forth. Indirect as well as direct questions were posed to ascertain the leadership styles in the respondent's organization. Data were also sought concerning the programs pertaining to management education, such as executive development and worker training.

Part III of the questionnaire dealt with labor-management relations. The questions particularly probed into the industrial relations existing in the organization. The respondents were asked to indicate the status of unionization in their plants, especially concerning the influence of the trade



unions on the policies of management on matters such as work load of the plant workers, work standards, working conditions, fringe-benefits, wage negotiations, bonus, recruitment and dismissals. The respondents were also asked to indicate the percentage of industrial disputes successfully negotiated as opposed to the percentage settled by adjudication. The purpose of this information was to determine whether collective bargaining was successfully used in the respondents' plants.

Part IV was designed to ascertain to what extent the policies of the government of British India and of the national government affected the growth of business and industry in the country. The respondents were also asked to comment on governmental interference in the conduct of private business firms as well as on such matters as federal legislation, management education programs, and the five-year plans.

Part V, the final section of the questionnaire, dealt with the outlook for the future in certain broad areas including organizational structure of joint stock companies in India, management education, leadership styles, growth of trade unions, collective bargaining, participation of business firms in programs of government agencies, and universities and colleges. Although all of these areas were quite broad, it was considered worthwhile to invite brief comments by the

respondents. Also, it was anticipated that, when received, the respondents' views on these topics would add strength to the study.

#### Selection of Respondents

The study was confined to the joint stock companies only, omitting the partnership and the sole proprietorship business. The basic reasons for not including sole proprietorships and partnerships in this study were numerous. In the first place, there are several thousand such business firms in India, and they are not organized to respond to such studies. Also the majority of these business firms are small, understaffed, and family oriented. Consequently, they are not financially strong enough to hire trained personnel and cannot, therefore, compete with larger businesses in attracting young talent. Moreover, as previously stated, the purpose of this research was to study the impact of governmental policies on business enterprises, and government was not active in trying to bring about any changes in these types of business firms. Most of the national government's legislation and its economic policies, such as the five-year plans and management education programs, were directed toward improving the condition of the joint stock companies.

In the selection of a sample of joint stock companies, special care was taken to choose progressive firms which represented all major industries. One hundred and one joint

stock companies were ultimately selected from a list provided in the "Monthly Commentary on Indian Economic Conditions" published by the Indian Institute of Public Opinion in November 1970. This size sample was considered adequate since India's industrial base is limited in that about 70 per cent of the population is still dependent on land for its living, and agriculture and allied activities account for nearly half of the country's national income. These 101 firms, moreover, are the largest by assets and the most active in their respective industrial sectors.

The selected organizations belong to industrial groups such as cement, chemical and allied industries, electrical equipment, mechanical equipment, metallurgy, mining, paper and paper products, petroleum refining, plantation, shipping and transportation, textiles, and so forth. The questionnaire was sent to the chairmen of the boards, managing directors, managing agents, or secretaries of these corporations for their responses.

#### Data Analysis

Of the 101 corporations which were included in the sample, sixty-nine representing almost all major areas of industrial activity in India, sent their responses. The largest number of responses was received from the areas of mechanical equipment and chemical and allied industries whereas fewer responses came from the firms in the

and paper products. Table XVII shows the distribution of respondents.

TABLE XVII  
DISTRIBUTION OF RESPONDENT FIRMS  
BY NATURE OF BUSINESS

| Industrial Groups                        | Number of Respondents |
|--|-----------------------|
| Cement . . . . .                         | 2                     |
| Chemical and allied industries . . . . . | 13                    |
| Electrical equipment . . . . .           | 6                     |
| Mechanical equipment . . . . .           | 13                    |
| Metallurgy . . . . .                     | 10                    |
| Mining . . . . .                         | 2                     |
| Paper and paper products . . . . .       | 1                     |
| Petroleum refining . . . . .             | 3                     |
| Plantation . . . . .                     | 1                     |
| Shipping and transportation . . . . .    | 3                     |
| Textiles . . . . .                       | 8                     |
| Others . . . . .                         | 7                     |
|  | Total                 |
|  | 69                    |

Many of the industrial groups, where the number of respondents was few, contained industries which are monopolistic in nature. Such industries are petroleum refining, mining, shipping, and plantation. Twenty-eight per cent of these sixty-nine respondent firms were founded before 1947, and the remainder were established after independence.

The majority of the sixty-nine respondents were among the largest of the 101 firms measured by assets and sales. Sixteen of the respondent firms were among the top nineteen by assets, whereas twelve were among the top sixteen by sales. Table XVIII shows the distribution of the respondents by assets and sales for the year 1968-69.

TABLE XVIII  
DISTRIBUTION OF RESPONDENTS BY ASSETS AND  
SALES REVENUES FOR THE YEAR 1968-69

| Assets<br>(million<br>rupees) | Number of<br>Respondents | Annual Sales<br>Revenues<br>(million<br>rupees) | Number of<br>Respondents |
|-------------------------------|--------------------------|---|--------------------------|
| 1-100                         | 5                        | 1-100   | 0                        |
| 101-200                       | 22                       | 101-200   | 24                       |
| 201-300                       | 15                       | 201-300   | 24                       |
| 301-400                       | 8                        | 301-400   | 4                        |
| 401-500                       | 3                        | 401-500   | 5                        |
| 501 and over                  | 16                       | 501 and over                                    | 12                       |
| Total                         | <u>69</u>                | Total   | <u>60</u>                |

Although these figures of sales and assets may appear meager to an American reader, they are outstanding for the Indian firms since the gross national product of India for

the year 1967-68 was 293,770 million rupees at current prices.<sup>1</sup>

The views of the respondent firms concerning the managing agency system were interesting. They were almost unanimously in favor of the abolition of the system by the government of India. Two of them stated that, since the system has been abolished, any discussion of it would be either "meaningless"; or "futile." They agreed, however, that it had served a useful purpose. One executive of a major corporation in the plantation industry offered "no comments" to this question. On the other hand, the chairman of the board of another large corporation in another sector of the economy expressed his views as follows:

Managing agency system is a 19th century anachronism. It had many merits in the past, particularly in the British sector of business where it began, but in the Indian sector it did not possess all those advantages, particularly of professional management. However, in both sectors today it is out-of-date and should give way, as it already is doing, to dispersed public ownership and professional management, instead of family control in both.<sup>2</sup>

The void created by the abolition of the managing agency system was filled by alternate forms of management as stated earlier. The most popular type of management

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<sup>1</sup>Government of India, Economic Survey 1969-70 (New Delhi, 1970), p. 62.

<sup>2</sup>Questionnaire response; source asked to remain anonymous.

used by the respondent firms was the managing directorship. Over 85 per cent of the respondent firms used one or more managing directors to conduct the affairs of their companies. In three companies the board of directors managed their organizations, but one firm used a president as its chief executive officer working directly under the direction of the board of directors. Another firm used a general manager as its chief executive. In one firm a committee of four Executive Directors was created to manage the company.

Almost all respondent firms indicated that they had been trying new ideas and techniques in the areas of organizational and manpower planning, product development and diversification, product scheduling, systems analysis, and research and development. One of the respondent firms indicated that linear programming concepts were introduced to optimize production, and various operation research type techniques were used to maximize the usage of company facilities.

Eighty-nine per cent of the respondents stated that their organizational structure was previously centralized, but in the present context there had been a shift in stress toward decentralization. About 6 per cent indicated that their structure is centralized; 3 per cent were not sure, and 2 per cent had no comment. These statistics indicate

that there is a change toward decentralization slowly spreading among many business firms throughout the country.

### Management Styles

#### Worker Motivation and Morale

The purpose of the second section in the questionnaire was to obtain data from the respondents concerning the conditions existing in their organizations relative to leadership styles, worker motivation and morale, management education, and related matters.

Leadership Styles--In order to develop an index on leadership patterns in respondent organizations, questions were devised concerning leadership behavior. An attempt was made to develop an index along the lines discussed by Tannenbaum and Schmidt.<sup>3</sup> Table IXX on page 144 gives a summary of these responses.

Patterns 1, 3, and 5 in the table are loosely related with 2, 4, and 6 respectively. It is apparent that the predominant leadership pattern in India is still authoritative in nature. However, a majority of the 52 per cent who indicated that leadership style in their organizations was authoritative also stated that suggestions were invited

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<sup>3</sup>Robert Tannenbaum and Warren H. Schmidt, "How to Choose a Leadership Pattern," Harvard Business Review (March-April, 1958), pp. 95-101.



TABLE IXX  
LEADERSHIP PATTERNS IN RESPONDENT ORGANIZATIONS

| Patterns                                 | Per Cent of Respondents |    |    |     |
|--|-------------------------|----|----|-----|
|  | PO                      | PC | UQ | NR* |
| 1. Manager makes decisions and announces | 20                      | 34 | 2  | 2   |
| 2. Authoritative decisions are made      | 22                      | 52 | 3  | 2   |
| 3. Manager invites suggestions           | 4                       | 57 | 4  | 2   |
| 4. Democratic decisions are made         | 1                       | 38 | 7  | ..  |
| 5. Manager permits group decisions       | ..                      | 3  | .. | ..  |
| 6. Laissez faire decisions are made      | ..                      | 3  | .. | ..  |

\*PO=Practiced Originally; PC=Practiced Currently; UQ=Unqualified; NR=No Responses.

from the subordinates before decisions were made. Almost all of the firms in operation before 1947 indicated that the manager made the decision and announced it in most cases. On the same question after 1947, 34 per cent still followed this method. Two per cent gave no response, and the same percentage gave unqualified answers. Answers which were not clearcut, and noncommitting in nature are labeled here as unqualified. Fifty-seven per cent of the respondents indicated that suggestions were invited from the subordinates

but that the final decision was made by the manager; 4 per cent of the respondents gave unqualified responses, and 2 per cent gave no response to this question. Only 3 per cent indicated that group decisions were made in their organizations and that the leadership style used was laissez faire.

Twenty-two per cent of the respondents indicated that the pattern of leadership in their companies before 1947 was authoritative, and only 1 per cent said it was democratic. This figure of 23 per cent included almost all of the firms in the sample established before 1947. There was of course a switch in their policies and styles after 1947 as a result of the changed political and economic environment and as a result of several national governmental programs introduced for effecting healthy change in the economic and business climate of the country. Fifty-two per cent of the respondents indicated that they used authoritative leadership in their organizations after 1947; 3 gave unqualified responses, and 2 per cent gave no responses. Thirty-eight per cent of the respondents stated that democratic styles of leadership existed in their plants, and 7 per cent had unqualified responses. Based on these responses it could be stated here that, although there was a switch from authoritative to democratic leadership style in many organizations, a majority still operated authoritatively.

Employee Incentives--Respondents were also asked about the kinds of incentives they provided for employee motivation and morale. Their responses are summarized in Table XX.

TABLE XX  
EMPLOYEE INCENTIVES PROVIDED IN  
RESPONDENT ORGANIZATIONS

| Types of Incentives  | Per Cent of Respondents |     |    |    |     |
|--|-------------------------|-----|----|----|-----|
|  | PO                      | PC  | NP | UQ | NR* |
| Payment of cash bonus  | 28                      | 100 | .. | .. | ..  |
| Profit-sharing plan  | ..                      | 3   | 91 | 6  | ..  |
| Fringe benefits:<br>housing, transportation, free medical care, retirement benefits, recreations, etc. | 28                      | 100 | .. | .. | ..  |
| Wages and/or dearness allowance linked with cost of living index                                       | ..                      | 89  | .. | 11 | ..  |
| Company encouragement in informal gathering of employees   | 18                      | 78  | 6  | 9  | 7   |

\*PO=Practiced Originally; PC=Practiced Currently; NP=None Provided; UQ=Unqualified; NR=No Response.

The payment of a cash bonus to employees once or twice a year before local religious festivals has been a traditional practice in India, and all of the respondent organizations followed this tradition. One respondent firm

indicated that an incentive for higher production in its organization was the giving of an annual bonus. Only 3 per cent of the respondents indicated, however, that some kind of profit-sharing plan was being used in their organizations. Six per cent gave unqualified responses, while 91 per cent stated that they had no such plan in operation.

Almost all of the respondent firms indicated that they provided fringe benefits to all their employees. These included housing, free electricity and water, transportation allowance to work, free medical care excluding hospitalization, retirement benefits, recreational facilities, educational facilities for children of employees, subsidized lunch program, holiday travel assistance, subsidized medical insurance, and sale of company merchandise to employees on credit at lower than market prices. Eighty-nine per cent of the respondents stated that they linked wages or "dearness allowance" of the workers with the cost of living index. A "dearness allowance" is a peculiar cash allowance paid by the employers to all their wage earners in addition to their regular wages. It originated during the post-World War II years when the cost of living went up as a result of the war, and small increases in wages could not compensate for the growing living costs.

Seventy-eight per cent of the respondent firms stated that they encouraged informal gatherings of their employees.

Such informal gatherings may include social functions, sports, clubs, welfare activities, picnics, or excursions. (It is interesting to note here that Indian business firms are still very paternalistic toward their employees.)

Motivation of Employees--An additional set of questions was compiled in order to probe further into management practices of the firms in the motivation of employees. Table XXI on page 149 provides a summary of these responses.

In order to keep their workers better motivated, 26 per cent of the respondent firms indicated that, before any changes in the organizational structure were introduced, the persons affected by these changes were consulted by the management; 53 per cent responded that consultation with the workers took place frequently on matters of mutual interest; 9 per cent had little employee consultation. There were 10 per cent unqualified answers, and 2 per cent gave no responses. On worker resistance to change, 86 per cent were confident that it was very low, almost negligible, in their organizations. Most of them were of the opinion that, when any change in the work methods, quality control, and other related matters was introduced in consultation with the workers' representatives, the resistance to change was minimized. One respondent from a large corporation employing over 13,000 workers stated that any possible dissatisfaction among the employees is circumvented by negotiations,

TABLE XXI  
 RELATIVE IMPORTANCE OF MOTIVATIONAL ACTIVITIES  
 IN RESPONDENT ORGANIZATIONS

| Motivational Activities                  | Per Cent of Respondents |                |           |    |    | NR* |
|--|-------------------------|----------------|-----------|----|----|-----|
|  | High Level              | Moderate Level | Low Level | UQ | UQ |     |
| Management consultation of workers       | 26                      | 53             | 9         | 10 | 2  |     |
| Worker resistance to change              | ..                      | 6              | 86        | 3  | 5  |     |
| Authority delegation: at executive level | 62                      | 18             | ..        | .. | .. |     |
| at operator level                        | ..                      | 8              | 12        | .. | .. |     |
| Degree of supervision of workers         | 33                      | 41             | 26        | .. | .. |     |
| Employee morale                          | 39                      | 44             | 4         | 9  | 4  |     |

\*UQ=Unqualified; NR=No Response.

persuasion, or acceptable reshuffling, keeping a long range view of the progression of the employees and the growth rate of the corporation.

Delegation of authority in 80 per cent of the respondent organizations was limited to the executive level since only 20 per cent of the respondents indicated that they used delegation at the operator level. No definite trend developed in relation to supervision of workers. The percentage of workers who were strictly supervised did not differ substantially from the percentage who had little supervision.

Employee morale did not appear to be a problem since thirty-nine per cent of the respondents considered it to be very high, while 44 per cent indicated that it was satisfactory, and only 4 per cent thought that it was low. Nine per cent gave unqualified responses on this point, and there were no responses to it at all from 4 per cent. Many companies had devised definite programs to build up and maintain employee morale. For example, one of the respondent firms indicated that employee participation in various committees, such as industrial relations, production, works and canteen, as well as cordial interpersonal relations at all levels helped in building up morale. Other factors mentioned as helpful in morale-building included incentive benefits for higher production, welfare activities, rewards for merit,

quick disposal of grievances, suggestion boxes, informal gatherings, and safety committees.

Almost all of the respondent organizations indicated that they maintained a personnel department. Promotions in 87 per cent of the respondent firms were granted to employees with seniority on a merit basis with only 10 per cent stating that tests were administered to candidates for promotion.

Although absenteeism among the plant workers was not considered a serious problem, many respondent firms were trying to reduce it still further by putting various programs into operation. These included liberal sick leave benefits, subsidized lunches at the factory, and subsidized transportation to the factory. One firm indicated that an attendance bonus was given if an employee were present on all the working days in a month. Another mentioned that production-incentive schemes were in operation in the plant to help curtail absenteeism. A formal procedure for the settlement of employee grievances existed in almost all of the respondent organizations. Such a procedure laid down step-by-step settlement of grievances pertaining to working conditions, promotions, dismissals, and other related matters.

#### Labor-Management Relations

In 88 per cent of the respondent organizations as many as 95 to 100 per cent of the workers had membership in labor



unions. Another 9 per cent of the respondent firms indicated that 85 to 94 per cent of their labor force was unionized, while 3 per cent gave no estimate. The managements of 92 per cent of the respondents consulted the trade unions on such matters as wages, bonus, gratuity, welfare activities, and fixation of standard work force. Eighty-three per cent of the respondents indicated that they had a work committee, consisting of an equal number of representatives from management and labor, which had the power to revise work standards and work loads and to look into cases of dismissals, retirement plans, and other matters affecting the welfare of the worker. One of the largest respondent firms which employed over 55,000 workers indicated that various types of committees were used in its plants to keep industrial peace and to improve labor-management relations; such bodies were joint department council, joint works council, suggestion box committee, joint consultation council in management, welfare committees, and general safety committees. Almost 90 per cent of the respondents indicate that 90 to 95 per cent of the industrial disputes in their organizations were successfully negotiated through the process of collective bargaining between the trade union and the management, and only 1 to 5 per cent of the disputes were adjudicated.

## Organization

### Government and Industry

Questions in the fourth section were designed to determine the impact of the policies of the government of British India as well as of the Indian national government on economic development, structure and organization of industry, and business in the country. Table XXII on page 154 summarizes these responses.

Impact of the Government of British India--A majority of the respondents, 84 per cent, agreed that the policies of the government of British India were favorable in creating an industrial base in the country, while only 7 per cent thought that they were unfavorable, and 9 per cent gave unqualified responses. Concerning the growth of organized industries, 69 per cent of the respondents thought that the policies were favorable, 23 per cent thought they were unfavorable, and 8 per cent gave unqualified answers. Economic development was the only area in which only 38 per cent of the respondents indicated that the British policies were favorable to the country, while 44 per cent thought that they were unfavorable, and 18 per cent had unqualified responses.

Impact of the National Government--As far as the impact of the legislation passed by the Parliament of independent India on the growth of industries was concerned, 81 per cent of the respondents indicated that it was favorable,

TABLE XXII

RELATIVE IMPORTANCE OF THE IMPACT OF GOVERNMENT POLICIES  
ON BUSINESS ORGANIZATIONS

| Governmental Policies                                       | Per Cent of Respondents |    |    |     |
|---|-------------------------|----|----|-----|
|   | F                       | UF | UQ | NR* |
| Impact of government of British India:                      |                         |    |    |     |
| on economic development                                     | 38                      | 44 | 18 | ..  |
| on creating an industrial base                              | 84                      | 7  | 9  | ..  |
| on growth of organized industries                           | 69                      | 23 | 8  | ..  |
| Impact of national government legislation:                  |                         |    |    |     |
| on growth of industries                                     | 81                      | 16 | .. | 3   |
| on management styles  | 76                      | 18 | 6  | ..  |
| on organizational structure                                 | 48                      | 41 | 4  | 6   |
| Impact of the Five-Year Plans:                              |                         |    |    |     |
| on development of new industries                            | 89                      | 3  | 8  | ..  |
| on growth of existing industries                            | 77                      | 21 | .. | 2   |
| on raising industrial production                            | 98                      | .. | .. | 2   |
| on private business in its contribution to national economy | 58                      | 26 | 14 | 2   |

\*F=Favorable; UF=Unfavorable; UQ=Unqualified; NR=No Response.

16 per cent thought it was unfavorable, and only 3 per cent did not give any response. Seventy-six per cent of the respondents indicated that the policies of the national government had a favorable impact on the management practices and styles of the business organizations in the country, 18 per cent stated that these were unfavorable, and 6 per cent gave unqualified answers. On organizational structure, 48 per cent of the respondents indicated that it was favorable, 42 per cent thought it was unfavorable, 4 per cent gave unqualified answers, and there were no responses from 6 per cent.

Impact of the Five-Year Plans--There was almost unanimous agreement on the question of the impact of the five-year plans on the development of new industries--89 per cent agreed that the plans had a favorable impact, about 3 per cent thought that it was unfavorable, and 8 per cent gave unqualified responses. Seventy-seven per cent of the respondents thought that the plans were favorable to the growth of existing industries, and only 21 per cent indicated they were unfavorable. There was almost a unanimous agreement among the respondents concerning the impact of the plans for raising the industrial production of the country with 98 per cent indicating that it was favorable. When asked about the impact of the plans on private business firms in relation to their contribution to the national economy,

58 per cent said it was favorable, 26 per cent said it was unfavorable, and 14 per cent had unqualified responses.

The reactions of some individual respondent firms concerning the five-year plans are noteworthy here. For example, one of the firms noted that the achievements which were realized under the plans would have been greater if various problems such as shortage of resources, lack of adequate managerial personnel, and some ill-conceived governmental policies had not developed. The same firm, however, was in favor of economic planning. It believed that, while useful alternate methods were theoretically attractive, for a country such as India with its economic and social problems, it was essential to choose the path of planned economic development. Otherwise, inequitable and serious imbalances could have arisen over short periods which would have aggravated the already severe hardships for a large section of the population. Another firm stated that the plans were helpful in determining priorities, but there was inadequate emphasis on the manner in which the targets were to be achieved with the result that there were serious inadequacies. In other words, emphasis was more on what was to be done and not enough on how results were to be achieved. Yet another firm expressed the opinion that plans should be more realistic with emphasis on gaining results.

Concerning the question of the degree of governmental interference in the conduct of private business, 66 per cent

of the respondents indicated that there was more than was necessary in the areas of industrial licensing, new investment, production capacity, pricing, and other related matters. Thirty-one per cent of the respondents indicated that there was no interference in their affairs.

One of the largest respondent firms, which employed over 55,000 workers, indicated that the government discourages licensing in certain areas of industrial activity to big industrial firms and that it controls expansion of production capacity, new investment, and pricing. The corporation also indicated that the industrial licensing policy of the government precludes the setting up of any new plants in the industry to which it belongs and only permits expansion of existing plants with prior government approval. The licensing policy referred to here stems out of sections 11 and 12 of the Industrial (Development and Regulation) Act of 1951, under which new industrial undertakings cannot be established except under a license issued by the central government. Such licensing may contain conditions as to the location of the undertaking, the minimum standards in respect of size to be provided, and the manufacture of new articles.

Another respondent firm, employing over 4,000 workers, stated that there was unwarranted governmental interference in almost every aspect of private business, such as restrictions on industrial licensing for increase in plant

capacity, which deprives the private sector from deriving benefits of economies of scale, and price controls; this in turn hampers normal competition and affects the quality of the goods produced.

Another respondent firm agreed that in certain areas less governmental interference would have been better for the growth of industry. But it is equally true that in certain other areas growth without governmental help would not have been possible. Another firm justified governmental interference by recognizing that the country has limited means which have to be utilized to the optimum productivity. The restrictions imposed by the government of India were, therefore, a natural outcome in any developing country which was trying to advance economically at a faster rate.

\* Management Education--About 39 per cent of the respondents, when asked about management education, indicated that they had regular programs of either executive development or staff training or both; about 55 per cent indicated that they periodically conducted such programs in their own plants and in addition to this regularly participated in programs organized outside their firms by various governmental agencies, local universities and colleges, and institutes. Some of the important institutions used by the respondent firms included the Indian Institute of Technology, the National Institute of Training in Industrial Engineering,

the Institutes of Management at Ahmedabad and Calcutta, the Administrative Staff College, the Institute of Public Enterprises, the All-India Management Association, the Indian Institute of Public Administration, the Institute of Applied Manpower Research, and the Institute of Mass Communications. Many of these institutions were established with the aid of the International Labor Organization, the Ford Foundation, or foreign aid from the United States. These groups conducted courses and training programs for managers in production management, personnel administration, financial management, leadership, production planning and control, material management, cost control, management development programs, communication in industry, and many others. Eighty-four per cent of the respondents indicated that they sent their employees regularly to short-term training courses on various aspects of production management offered by local productivity councils. These councils are government of India undertakings and are responsible for conducting plant-level training programs and providing research and consulting services to local business firms.

One firm maintained its own technical training institute as well as a staff training institute at one plant site. In addition, there was central executive development and a management training center for the entire organization to which employees were sent regularly. Another large



respondent firm, which employed over 6,600 workers, gave its views on management education in India as follows:

Since the last few years, there is a growing awareness on the part of the management of almost all industrial, commercial and other organizations, of the need to build up a scientifically trained Management Cadre in each organization to meet the various complex management problems. As an offshoot, of this a number of professional Management Training Institutions modeled on scientific lines and imparting training on modern management techniques etc., have been established in India. Similarly, a number of research organizations have also come up. Management Education System in India is expected to grow considerably in the future.<sup>4</sup>

To summarize, the questionnaire responses provide further evidence of the fact that the policies of both the government of British India and the new national government had an impact on shaping the organizational structure and management styles of business firms in the country. Changes resulting from these policies include such important items as the popularity of the managing directorship as a new form of management for business; the use of new and modern techniques of management by the business firms; a gradual but steady change from centralized organizational structure in favor of decentralization and more liberalized employee incentive programs. A change in the management style from authoritarian to more participative has been slow but steady. The growth of management and technical education as a result of government-sponsored councils and institutes as well as

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<sup>4</sup>Questionnaire response; source asked to remain anonymous.

of the efforts of institutions of higher learning have encouraged managers and business firms to accept the use of new organizational approaches and management styles. This is evident from the fact that more and more business firms are getting involved in management programs conducted by the institutions of higher learning as well as by the various governmental agencies. The popularity of management education among business firms certainly has had an impact on their organizational structure and management styles.

## CHAPTER VII

### SUMMARY AND CONCLUSIONS

#### Summary

The purpose of this study was to explore the policies of the government of British India and of the independent Republic of India relative to their impact on organizational structure, management practices, management styles, and management education in business organizations in the country. A basic premise of the study was that British policies during the current century had, on the whole, a favorable impact on the industrial climate of the country. The British left India with a limited industrial base; but as a precondition for industrialization, they gave the country an efficient civil administration, a modern judicial system, a good transportation system, and a modern educational system. After independence in 1947, the new national government paid immediate attention to channeling and redistributing economic resources in order to achieve a more balanced growth in business and industry.

The research revealed a growing awareness in the business community of the need for building up a class of professional managers through management education programs. An in-depth study of published material, primarily from

various agencies of the government of India, was made to look into this issue. For example, information was acquired from the Ministry of Law, the Ministry of Commerce and Industries, the Ministry of Broadcasting and Information, reports of various inquiry commissions and committees, Parliamentary debates, Department of Company Law Administration, Planning Commission, and other such bodies.

Long before the advent of British rule, India under the Moguls was famous for its manufacturing industries and enjoyed a worldwide market for its silk and cotton textiles, carpet weaving, artistic metal work, wood and ivory carvings, brass and copper wares, cutting of precious stones, swords and arms. Its industrial and commercial organization could withstand international competition since these industries and crafts were highly in demand in the domestic as well as foreign markets. Too royal patronage gave added security. Most of these occupations, hereditary in nature, lacked research in the areas of product improvement and development of new products. Despite such weaknesses in the system, it worked fairly well and provided steady employment for a large number of people. The Mogul period thus was a golden era for the development and growth of business and industry in India.

Following the break up of the Mogul empire and the emergence of the British East India Company as a successful trader in India, native Indian industries declined. Several

natural factors were responsible for this; outstanding among them were the Industrial Revolution in Europe and discovery of sea route to India. The East India Company gradually changed its policy of only engaging in trade and subsequently gained political strength by entering into alliances with the warring Indian rulers. By occupying strategically important coastal areas, it was able to win the Indian empire. British tariff policies and the preferential sale of British goods in India eventually brought about the decline of Indian handicrafts by the middle of the nineteenth century.

In 1858, following "the Indian Mutiny," Queen Victoria took over the control of India from the East India Company. The policy of laissez faire then followed by the British government served British industrial interest, but Indian goods were driven out of the market under such a policy. This decline of domestic industries turned India into an importing nation.

It was not until the middle of the nineteenth century that the British contributed significantly to initiating organized industries in India. Such large-scale, organized industries as tea, cotton textile, jute, coal, cement, sugar, iron, and steel were financed with British as well as Indian capital. (And it should be pointed out that the British contribution in the growth of the industries was significant.) World Wars I and II further strengthened the process of

industrialization. For instance, protective tariffs were granted to many industries during the post-World War I years which gave them enough strength to survive world competition, while World War II brought considerable expansion in many of the large-scale industries.

The East India Company introduced the country to the form of business organization known as the joint stock company and the majority of the large-scale industries grew with the help of joint stock companies. These companies almost invariably were organized under the managing agency system. Managing agents were firms which managed various companies in return for a certain commission. At first the managing agents were British, but gradually Indians also entered into several industrial fields--particularly textiles, iron, and steel--to act as managing agents. Managing agents were thus pioneers of many organized industries in India. Under the technical and managerial expertise of the managing agents, many industries grew. In spite of its great usefulness to the industrialization process of the country, the system had several weaknesses which stemmed from abuses by agents who had gained extraordinary powers over the industries they managed. Hence there was public outcry in favor of reforming and even abolishing the system.

Soon after independence the National Parliament of independent India adopted the Resolution on Industrial Policy

in April, 1948, and again in 1956, which laid down positive guidelines for industrial development. It envisioned a mixed economy with the government having the overall responsibility both for the planned development of industries and for their regulation in the national interest. Concrete measures were taken by the government for industrial development; these included such steps as financing of large-scale industries, providing tax concessions for them, establishing national laboratories for applied research and testing, passing necessary legislation, and establishing advisory councils which in turn provided a forum for discussion of problems connected with efficiency and productivity. Parliament also enacted the Companies Act in 1956 in order to bring the then existing Companies Act in line with the new socio-economic environment of the country and to protect the interest of the stockholders against unfair corporate practices.

In view of the growing dissatisfaction of the public with the managing agency system, the government of India appointed the Managing Agency Enquiry Committee in 1965 to decide its future. The Committee, after making inquiries about a group of industries, expressed its opinion that in large part the system was the manifestation of the caste system and of communal and family exclusiveness in the area of management. It then recommended that the system be abolished immediately in some industries, whereas in others a gradual move toward this goal would be advisable in order

to minimize the disturbance and dislocation caused by the discontinuance of the system. To fill the vacuum created by the abolition of the system, the Committee advocated the use of alternate forms of management, namely the board of directors, the managing director, and the secretaries and treasurers as provided under the Companies Act of 1956.

The development of management styles in modern business firms in India was affected by the ideas and philosophy of Mahatma Gandhi and Jawaharlal Nehru. Gandhi emphasized the need for an equal economic growth of villages as well as cities. Since a majority of the population still lived in villages, he advocated the revival of hand-spinning to keep the village artisans and craftsmen steadily employed and also to avoid waste in the use of manpower. He also stressed the need for starting democracy at the village level through the establishment of a "Panchayat" system in all villages. He believed in the individual as an integral part of the society. The idea behind the "Panchayat" was decentralization of authority, abolition of social and economic inequalities, and establishment of a peaceful social system through mutual understanding and service. As a true follower of Gandhi, Nehru established "Panchayats," worked on eradication of untouchability and land reforms, and promoted cottage and small-scale industries. At the same time he took a keen interest in the industrial growth of the country through



economic planning. Leadership styles in business firms were affected by these philosophies.

In the light of the Directive Principles of State Policy embodied in the Constitution, the government of India also organized and appointed the Planning Commission in 1950 as an agency for preparing economic plans for the most effective and balanced utilization of the country's resources. The First Five-Year Plan, 1951-56, was followed by three consecutive five-year plans. The long-term objective of the planning was to double by 1977 the per capita income from the base year 1950-51. The plans concentrated heavily on the development of agriculture, irrigation and power, transportation and communication, and large-scale and small-scale industries, and education. Despite setbacks total agricultural and industrial production grew continuously with the completion of each plan as did personal income and national income. The plans also helped the country expand its small industrial base rapidly with the number of factory workers almost doubling between 1951 and 1967.

The government's efforts have been directed toward the growth of both the public and private sectors of the economy. Private enterprise has been responding to these policies by adopting modern methods and techniques of management in the place of old ones. There is awareness among Indian managers of the need for creating and expanding a class of professional managers. The importance of management education

is being realized fully by the managers, and they are actively participating in educational programs offered by certain governmental agencies and educational institutions.

### Conclusions

Several conclusions may be drawn both from the literature studied for this research and from the survey made of Indian business organizations. Other conclusions may also be arrived at through validating the two hypotheses.

The first hypothesis stated that policies of the government of British India and of the current national government had a major impact on shaping the organizational structure and management styles of private business in India.

The arrival of the British traders in large numbers at a time when the Mogul Empire was on the verge of disintegration gave them the opportunity, at first, of consolidating their commercial position and later on of gaining political power in India. This consolidation of British interest was also aided by certain other factors such as the growth of science and technology in Europe. In addition, the importing of large quantities of British goods together with a tax system devised for India brought about a decline of domestic handicrafts.

British economic policies in India during the current century changed gradually. The First and Second World Wars were largely responsible for these changes. The Indian

Companies Act of 1913, the first significant legislation passed by the government of British India, was conducive to the growth of organized industries. The joint stock companies, established under the provisions of this act for the first time in India, were very helpful in the growth of such important basic industries as iron, steel, chemicals, glass, and engineering. Jute and cotton textiles companies also showed significant growth. All of the companies were administered by managing agents; the Companies Act was responsible for the creation of this strong managerial form of business organization, and it helped strengthen the agents' position in various important industries. Research also confirms that this system had certain inherent advantages as well as disadvantages.

The advantage of the managing agency system was that business firms were provided with a workable organizational structure and management style. The system was also helpful in the early growth of organized industries since the services of the administrative personnel could be used simultaneously for two or more companies. Many of the disadvantages of the system were such inherent factors as a lack of means for the training of personnel, an unwillingness to adapt to new techniques, and the hereditary nature of the system with its inefficiency. Other disadvantages were caused by such abuses as corruption in the election of directors and excessive charges for services.

Although the pioneering efforts of the managing agents were helpful in the growth of industry in the early years, the authoritarianism which ensued created problems of morale and inefficiency. The questionnaire responses were almost unanimous in agreement that the system should be abolished.

Some notable bodies such as the Industrial Commission of 1916 and the Munition Board of 1917, appointed by the government of British India, explored the possibilities of further industrial development. Direct and/or indirect financial assistance and free technical advice were also provided by the government to prospective industrial enterprises. Between 1918 and 1922 the number of registered companies increased by about 75 per cent, and the paid-up capital more than doubled. Even though the increase was numerically small, it encouraged prospective entrepreneurs to pioneer new industries and participate in the growth of existing ones. The managing agency system also consolidated its position during these years in the absence of any other suitable organizations to run these industries.

Further industrial expansion during World War II was due to two reasons. These industries were badly needed for war supplies; secondly, these goods could be produced without much interruption in India as the war was not being fought on Indian soil. It could therefore be concluded that the British impact on the industrial climate and on the civil

administration of India was favorable during the current century.

Further supporting evidence to validate the first hypothesis comes from the questionnaire survey in which 84 per cent of the respondent firms agreed that the policies of the British during the current century were favorable in creating an industrial base in India.

When the British left India, the Indian National Parliament paid immediate attention to the country's pressing problems such as the eradication of poverty, channeling of resources in much needed areas, solution to the problems of unequal distribution of income among the masses, full utilization of the country's material and manpower resources, and development of much needed industries. With active help from the national government, private enterprise played an important role in the achievement of these objectives. The mere creation and adoption of policies by the National Parliament on certain broader issues did not directly influence organizational structure and management styles of businesses in the country. However, the creation and utilization of appropriate machinery to carry out such policies had an impact on both organizational structure and management styles. The government of India, therefore, aided directly and/or indirectly to create several commissions, agencies, associations, institutions, and other such bodies

in order to achieve such goals. Each one of these bodies had been assigned certain specific responsibilities. Outstanding among these governmental agencies were the Indian Standards Institution which promoted standardization, quality control, and work simplification. The Central Advisory Council of Industries ascertained methods of increasing efficiency and productivity. Development councils, among other things, facilitated the training of technical and skilled industrial personnel and recommended the improvement of business management practices while productivity councils generated productivity consciousness and rendered free technical advice to industry.

The establishment of this kind of machinery by the government had an impact on the organization and management practices and styles of private businesses since they had to make necessary changes to be able to utilize the services of these agencies. This acceptance of change by industrial firms also led them to try new ideas and techniques in organizational and manpower planning, product development and diversification, systems analysis, linear programming, and research and development.

Government legislation was directed toward planned development and regulation of industries, and it helped them improve their organizational structure and management styles to fit the needs of a developing economy. Outstanding among

this legislation was the passage of the Industries (Development and Regulation) Act of 1951 and the Companies Act of 1956. These acts had a major impact on organizational structure and management practices and styles in business enterprises in the country. The Industries (Development and Regulation) Act established the Central Advisory Council of Industries which authorized the government to examine the working of industrial firms in case of mismanagement and empowered it to secure equitable distribution and fair prices for any article produced by the scheduled industries listed under the act. The Companies Act undertook to reform the managerial practices of private business firms and provided alternate forms of management to replace the managing agency system. This act added three types of professional management: the board of directors with or without a manager, the managing director, and secretaries and treasurers. Thus further impetus was provided by the government to stimulate growth of professional management in the country. Evidence from the responses to the questionnaire confirms that over 85 per cent of the respondent firms now use managing directors. The remainder of the respondent firms used other forms of professional management as provided under the Companies Act of 1956. This definite change in the organizational structure and management practices of business firms was a result of the impact of government legislation and its policies.

It may be concluded that the councils, institutions, and various governmental agencies established under the Industrial Policy Resolution in general and under the Industries (Development and Regulation) Act of 1951 brought about a better understanding and cooperation between government and private enterprise. In little more than a decade, the satisfactory relation between both segments stimulated industrial development of the country.

A majority of the firms which responded to the questionnaire also confirmed that the democratic economic planning by the government of India had a favorable impact on the development of new industries and on the growth of existing industries; a rise in the industrial capacity and production also occurred.

Though the Management style of business was authoritative, the teachings and the philosophy of Mahatma Gandhi during the British period and after independence gradually changed the thinking of the masses to favor solving political, economic, and social problems through a democratic process known as "Panchayat." This system popularized by Gandhi and Nehru, laid the basic foundation for building a democratic society and for developing democratic management principles in India. Although the predominant leadership pattern in business was still authoritative even after independence, the policies of the national government caused



a gradual shift toward the use of more democratic ideas. According to the evidence found in the questionnaire responses, authoritative decisions were still made by 52 per cent of the respondent firms, but at the same time in 57 per cent of the respondents firms managers invited suggestions from the employees. Eighty-nine per cent of the respondent firms indicated their interest in the gains made possible by decentralizing their organizations. Findings also support that these were important changes which might have resulted because of the impact of governmental legislation and policies as well as from the teachings and philosophy of such persons as Gandhi and Nehru. It could, therefore, be concluded that a change toward decentralization is slowly spreading among business firms in India.

Activities undertaken by business firms to motivate employees also had encouraging results. The majority of the respondent firms indicated that they consulted their workers on decisions affecting them and thus needed less strict supervision of workers. All of these steps indicate a definite improvement in managements' attitude toward their employees. Employee incentive programs undertaken by business firms included several outstanding items such as payment of cash bonus, transportation allowance, subsidized lunches, subsidized medical insurance, linking of cost of living index with wages, productivity bonus, holiday travel

assistance, merit awards, and profit sharing. These motivational activities were developed through collective bargaining between representatives of management and labor and through several joint committees and councils of management and employees supported by new Parliamentary legislation. This procedure was a further step toward democratization of the business organizations. The impact on employee motivation and morale was favorable, since there was little resistance to change on the part of the workers and since absenteeism in the respondent firms was not a serious problem.

Under the Directive Principles of State Policy embodied in the Constitution, the national government's legislation was also directed toward the improvement of labor-management relations. The right of the workers to form trade unions was accepted by the National Parliament. Consequently, workers in a large majority of business organizations were unionized in India. Machinery for the settlement of strikes and lock-outs was provided under legislation by the central government, and several of its administrative agencies were given the responsibilities to act as mediators and adjudicators in the settlement of industrial disputes. In addition, collective bargaining was accepted as a potent means of settling industrial disputes. Many progressive companies created their own machinery for improving

labor-management relations such as joint department councils and welfare and safety committees. Such innovations are further evidence that the first hypothesis can be accepted as valid.

The second hypothesis stated that the influence of management education on business firms was manifest in their organizational structure and management styles.

The process of industrialization in India accelerated by economic planning created a great need for developing high-level managerial resources. The government felt that the key to increasing the number of skilled and qualified executives with drive, initiative, and imagination lay in the expansion of educational opportunities for the masses.

Accepting the recommendations of the University Education Commission, the government decided that universities must provide leadership not only in politics and administration but also in the various professions as well as in industry and commerce. Colleges of commerce and technology and universities expanded their facilities considerably to prepare and train a cadre of managers with the help of a generous allocation of funds from the government. The number of pupils in arts, science, and commerce colleges increased fivefold in eighteen years. To meet the increased enrollment, the number of training colleges increased from 53 in 1951 to 1,272 in 1966; the number of arts, science, and

research institutions and commerce colleges rose from 542 to 2,163; and the number of universities rose from 27 to 75 during the same period. In addition to various training programs, governmental agencies also helped in the creation of professional managers. In the field of professional education, courses for various types of technology including business management, industrial relations, accounting, finance, banking, marketing, and economics were started in state agencies, universities and colleges, and in various private institutions of higher learning. Help was also sought by the government from various agencies of the United Nations--especially the United Nations Educational, Social, and Cultural Organization--and from several foreign governments, including the United States and the United Kingdom.

A large majority of Indian managers are urban-born and middle-class. It is largely this class that is able to go to the better schools, colleges, and universities. The job-seeking section of the middle-class from which managers and high civil servants are drawn also is quite mobile. Business firms are accepting the fact that educated, university-trained managers could be valuable assets to their organizations. Trained managers are necessary in most of these firms in order to meet competition in a growing business world. This is definitely a major change that will affect the management style and organizational structure of

business firms in India. It took tremendous efforts on the part of the national government and educational institutions to create such a change in the awareness of the business community. The questionnaire responses also reveal a growing awareness among Indian managers of the importance of management education. Professional managers must be created in order to take up the new responsibilities under the changing business environment in the country. All this evidence suggests that this hypothesis can be accepted as valid.

In summary, a managerial revolution has been going on in India for the last twenty-five years. Three major changes have taken place during these years--British business in India realized the necessity of developing Indian executives to assume important business responsibilities; the closed family type of management changed to professional management; and the business community became conscious of the importance of management education to create professional managers. The expansion rate of private enterprises in India during the coming years will depend upon the country's level of technical competence, its flexibility in adapting itself to a changing democratic society, and its progress in formulating and implementing the planning policies of the government.

This study, a systematic analysis of the historical evolution and current economic development that the business sector is going through, has shown that modern growth in

business and industry has mostly taken place since the national government came into power in 1947. India's business and industries are going through an important transitional period. But it is clear that a separate, professional managerial class is gradually emerging and slowly taking over much of the business management. Several more studies of this nature should be conducted in the future in order to discover if the policies of the national government in the last twenty-five years have brought about lasting change in organizational structure and management styles of business in India. Such studies will also point out the lines along which policies will have to be adapted to the changing socio-economic conditions of the future.

## APPENDIX A

## TARGETS AND ACHIEVEMENTS UNDER THE FIVE-YEAR PLANS\*

|   | Unit**  | First Plan |                        | Second Plan |                        | Third Plan |                        |
|---|---------|------------|------------------------|-------------|------------------------|------------|------------------------|
|   |         | Targets    | Achievements (1955-56) | Targets     | Achievements (1960-61) | Targets    | Achievements (1965-66) |
| <u>Agriculture</u>                      |         |            |                        |             |                        |            |                        |
| Foodgrains                              | M Tons  | 61.6       | 66.9                   | 80.5        | 79.6                   | 100.0      | 72.3                   |
| Cotton                                  | M Tons  | 1.3        | 3.9                    | 6.5         | 5.4                    | 7.0        | 4.9                    |
| Jute                                    | M Bales | 2.1        | 4.2                    | 7.8         | 4.1                    | 6.2        | 5.4                    |
| Oilseeds                                | M Tons  | 4.0        | 5.6                    | 7.6         | 6.5                    | . . .      | 6.3                    |
| Electrical energy (installed capacity)  | M Kw    | 1.3        | 1.1                    | 6.9         | 5.6                    | 12.7       | 10.2                   |
| <u>Industry</u>                         |         |            |                        |             |                        |            |                        |
| Steel                                   | M Tons  | 6.7        | 1.7                    | 4.3         | 3.4                    | 9.2        | 6.5                    |
| Pig iron                                | M Tons  | 1.3        | 2.0                    | . . .       | 4.3                    | . . .      | 7.1                    |
| Cement                                  | M Tons  | 2.1        | 1.9                    | 10.5        | 7.9                    | 13.2       | 10.8                   |
| Aluminum                                | T Tons  | 8.3        | 7.4                    | 25.0        | 18.3                   | 80.9       | 62.1                   |
| Sugar                                   | T Tons  | 4,000.     | 1,890.                 | 2,300.      | 3,000.                 | . . .      | 3,500.                 |
| Cotton textile                          | M Yards | 9,820.     | 13,840.                | 8,500.      | 6,978.                 | 5,800.     | 4,401.                 |
| <u>Transportation and communication</u> |         |            |                        |             |                        |            |                        |
| Locomotives                             | Number  | 170.       | 176.                   | 400.        | 295.                   | . . .      | . . .                  |
| National highways                       | T Miles | 0.6        | 0.6                    | 144.9       | 144.0                  | . . .      | 287.0                  |

\*Sources: India, New Delhi, 1955 and 1969.

A. H. Hanson, The Process of Planning, London, 1966.

D. C. Barjatiya, Current Economic and Commercial Problems, Agra, 1968.

\*\*M=Million; T=Thousand.

## APPENDIX B

### THE QUESTIONNAIRE USED IN THE SURVEY

Subject: Questionnaire for an academic study of management practices of business firms in India

I am engaged in a research study of business firms in India. This study is being undertaken as a partial fulfillment of the requirement for the Ph.D. degree in Business Administration at North Texas State University, Denton, Texas, U.S.A.

The purpose of this research is to gather supportive data on the policies of the national government on the organization, management practices, and management styles of business firms in India.

A questionnaire has been designed for your responses which is being mailed to a select number of large joint stock companies in India. This questionnaire is divided into five parts. Please give your brief responses to these questions and mail back the completed questionnaire.

All your replies will be kept strictly confidential and will be used only for this academic study. I will appreciate your help and cooperation in making this study possible.

Sincerely,

M. A. Khan



## QUESTIONNAIRE

## I. STRUCTURE AND ORGANIZATION

1. Name of the company
2. Year established      Average number of workers employed
3. Paid-up capital during 1968-69
4. Total assets for 1968-69
5. Total annual sales for 1968-69
6. Please furnish the current organizational chart of your company.
7. If your company was established before 1947, what was the organizational set up of your company prior to 1947?
8. Your views on the managing agency system: Should it be retained or abolished? Please give reasons.
9. Has your company tried any new ideas in the following areas:  
(Circle as many as necessary)  
(a) organizational changes      (b) planning  
(c) production scheduling      (d) new product development  
(e) other
10. Is your company's organizational structure  
(a) centralized, or (b) decentralized - circle one.

## II. MEN, MOTIVATION, AND MORALE

Please circle one or more where necessary. Briefly answer the rest.

11. Before introducing changes in the organization, the people getting affected by these changes are (a) consulted by the management (b) not consulted (c) consulted but not very often (d) other
12. How is the general attitude (resistance) of the workers in accepting changes relative to work methods, quality control, job transfer, etc. (a) resistance high (b) resistance medium (c) resistance low

13. Does the manager (a) make decision first and then announces it (b) invite suggestions from subordinates and then decide (c) permits subordinates to make group decisions. (d) before 1947 a. b. c. (e) after 1947 a. b. c.
14. What are the policies and procedures of the company on promotion and dismissal of employees? Please explain both briefly.
15. Do you have separate Personnel Department in the company? Yes No
16. How is the personnel (both blue-collar and white-collar) for different vacancies recruited? (a) application blanks (b) job interviews (c) employment exchanges (d) other
17. Is your promotion system based on: (a) seniority (b) merit and work experience (c) seniority-cum-merit (d) other
18. Has your company prepared and printed an employee manual setting forth its policies on various items pertaining to the employees? Yes No
19. At what levels and how often the company officials delegate authority to their subordinates?
20. What kind of arrangements does your company have for handling employee grievances?
21. What are the major causes of absenteeism?
22. Has the company devised and tried any special programs to cut down worker absenteeism? If yes, please explain the programs briefly.
23. Is there a profit-sharing plan in use at present in your company? (a) Yes (b) No (c) Before 1947 a. b. (d) After 1947 a. b.
24. Does your company pay bonus to employees in cash or kind? How often? (a) Yes (b) No (c) Before 1947 a. b. (d) After 1947 a. b.
25. Are there any noncash incentives provided to employees? Please explain.
26. What kind of fringe benefits are provided to the employees?

27. Are the wages or dearness allowance linked with the cost of living index? Yes No Other
28. How is the employee morale at your plant? (a) good (b) satisfactory (c) could be better (d) other
29. Do you have any programs in operation at your plant to build up and maintain worker morale? Please explain.
30. Are the workers supervised by the foremen on their jobs strictly? Yes No Other
31. What kind of social background do your plant workers come from? (a) agricultural (b) urban (c) tribal (d) working class (e) other
32. Do your supervisors (Department Heads, Foremen), (a) demand full obedience from their subordinates, or (b) do they leave some room for constructive dissent?
33. Has your company introduced any schemes to build up worker efficiency? (a) Yes (b) No (c) other
34. Does the management promote any informal gatherings of employees on a regular basis and on special occasions? Please explain briefly.
35. Does your company have an executive development or management education program in use at present? (a) Yes (b) No (c) other
36. Has your company ever conducted any studies on worker motivation, morale and leadership styles in the plant? Yes No
37. How would you describe the leadership style in your company? (a) authoritative (b) participative (c) more a than b (d) more b than a (e) laissez faire (f) before 1947 a. b. c. d. e. (g) after 1947 a. b. c. d. e.

### III. MANAGEMENT-LABOR RELATIONS

38. Is your plant unionized? How many unions are operating?
39. What percentage of your labor force belongs to the union?
40. What were the major causes of strikes at your plant?

41. On what particular issues the trade union at your plant is consulted by the management before making a decision?  
(a) wages (b) bonus (c) dismissals (d) working conditions (e) retirement plans (f) other (g) Before 1947 a. b. c. d. e. (h) After 1947 a. b. c. d. e.
42. Does your company have a labor-management committee or council to recommend and supervise workloads, work standards, and the like matters? Explain.
43. Do you have periodic meetings of labor and management representatives to discuss matters of mutual interest?  
(a) Yes (b) No (c) whenever needed.
44. In case of two unions in your plant, is there an inter-union rivalry?
45. What percentage of the total labor-management disputes are, (a) successfully negotiated....% (b) goes for adjudication....%

#### IV. GOVERNMENT AND INDUSTRY

46. Were the policies of the government of British India,  
(a) helpful in economic development of India (b) helpful in creating an industrial base for the country (c) had a favorable impact on the growth of organized industries (d) not favorable for business (e) other
47. Do you think that there is more government interference in the conduct of private business in India than is necessary? Please comment.
48. If your company was established prior to 1947, how far were the policies of the British government helpful in the growth of your company?
49. In your opinion, central government legislation passed after 1947 has been, (a) most helpful in the growth of business in India (b) partially helpful (c) not helpful (d) more of it needed.
50. What kind of management education programs has the central government established in your area with the help of local universities, colleges, and government agencies?
51. Does your company participate in any of these management education programs?

52. What in your opinion, is the impact of the policies of central government on the management styles and organization of your company?
53. In your opinion, do you think there is any harmful competition existing between government-owned business and privately-owned business in India?
54. The five-year plans have been helpful, (a) in the development of industries (b) in the growth of existing industries (c) in the generation of productivity consciousness (d) in raising industrial production (e) to private business firms in their contribution to the national economy.
55. Had the government not resorted to economic planning, (a) industries would never have been developed (b) would have developed slowly (c) no industrial growth was possible (d) other alternate methods would have been equally useful.
56. Any other comments on the five-year plans?

#### V. OUTLOOK FOR THE FUTURE

(Please comment briefly on each item)

57. Organizational structure of joint stock companies in India.
58. Organizational structure of your own company in the next ten years.
59. Management education in India.
60. Leadership styles in your company.
61. Growth of trade unions in India.
62. Collective bargaining at your plant.

## APPENDIX C

### LIST OF BUSINESS ENTERPRISES INCLUDED IN THE SURVEY

Indian Oil Corporation Limited  
Hindustan Steel Limited  
State Trading Corporation of India Limited  
The Tata Iron and Steel Company Limited  
India Tobacco Company Limited  
The Minerals & Metals Trading Corporation of India Limited  
Tata Engineering and Locomotive Company Limited  
Hindustan Lever Limited  
The Delhi Cloth & General Mills Company Limited  
The Indian Iron and Steel Company Limited  
Brooke Bond India Limited  
Dunlop India Limited  
Voltas Limited  
The Associated Cement Companies Limited  
Hindustan Aeronautics Limited  
The Gwalior Rayon Silk Manufacturing (Weaving) Company Limited  
The Fertilizer Corporation of India Limited  
Hindustan Motors Limited  
The Century Spinning & Manufacturing Company Limited  
Cochin Refineries Limited  
The Shipping Corporation of India Limited  
National Coal Development Corporation Limited  
Rallis India Limited  
The Scindia Steam Navigation Company Limited  
Union Carbide India Limited  
Esso Eastern Inc.  
The Premier Automobiles Limited  
The Vazir Sultan Tobacco Company Limited  
Guest, Keen, Williams, Limited  
The Tata Oil Mills Company Limited  
Ahmedabad Manufacturing and Calico Printing Company Limited.  
Good Year India Limited  
Bharat Electronics Limited  
Philips India Limited  
Hindustan Aluminium Corporation Limited  
Ashok Leyland Limited  
Madura Mills Company Limited  
Oil India Limited  
The Metal Box Company of India Limited  
The Mafatlal Fine Spinning & Manufacturing Company Limited

The Birla Jute Manufacturing Company Limited  
The Western India Match Company Limited  
Kesoram Industries & Cotton Mills Limited  
Jiyajeerao Cotton Mills Limited  
Glaxo Laboratories (India) Limited  
The Indian Tube Company Limited  
Heavy Electricals (India) Limited  
The Bombay Dyeing and Manufacturing Company Limited  
Mahindra & Mahindra Limited  
Caltex Oil Refining (India) Limited  
Rohtas Industries Limited  
Kirloskar Oil Engines Limited  
National Mineral Development Corporation Limited  
Bharat Earth Movers Limited  
Indian Aluminium Company Limited  
Ceat Tyres of India Limited  
Indian Telephone Industries Limited  
The National Rayon Corporation Limited  
Escorts Limited  
Orient Paper Mills Limited  
Crompton Greaves Limited  
Neyveli Lignite Corporation  
Greaves Cotton and Company Limited  
Larsen & Toubro Limited  
Buckingham and Carnatic Company Limited  
The Fertilisers and Chemicals, Travancore Limited  
Swadeshi Cotton Mills Company Limited  
Chemical and Fibers of India Limited  
The India United Mills Limited  
Burmah-Shell Refineries Limited  
Gujarat State Fertilizers Company Limited  
Mukand Iron & Steel Works Limited  
The Hindustan Construction Company Limited  
The New Shorrock Spinning & Manufacturing Company Limited  
Mohan Meaking Breweries Limited  
Hindustan Machine Tools Limited  
Simpson & Company Limited  
The Titaghur Paper Mills Company Limited  
The Jay Engineering Works Limited  
The Singereni Collieries Limited  
Indian Oxygen Limited  
The Tata Power Company Limited  
Nirlon Synthetic Fibers & Chemicals Limited  
Pfizer Limited  
Indian Explosives Limited  
India Steamship Company Limited  
The Indian Cable Company Limited  
Incheck Tyres Limited  
Dalmia Cement (Bharat) Limited  
Ciba of India Limited

Jessop & Company Limited  
Synthetics & Chemicals Limited  
Tata Chemicals Company  
Motor Industries Company Limited  
Mysore Iron and Steel Limited  
Jaipur Udyog Limited  
Shree Gopal Paper Mills Limited  
Coromandel Fertilisers Limited  
The Alkali & Chemical Corporation of India Limited  
The India Cements Limited  
The East Indian Coal Company Limited



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