

COMMITTEE ON PUBLIC UNDERTAKINGS

(THIRD LOK SABHA)

TWENTY-SEVENTH REPORT

PLANNING, MANAGEMENT AND ADMINISTRATION
OF
KERALA STATE GOVERNMENT COMPANIES



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COMMITTEE ON PUBLIC UNDERTAKINGS

(THIRD LOK SABHA)

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Shri A. L. Rai—*Deputy Secretary*

*Appointed as Chairman w.e.f. 24-1-1966 vice Shri Panampilli Govinda Menon ceased to be a member of the Committee on his appointment as Minister.

**Elected w.e.f. 23-2-1966 in the vacancies caused by appointment of Shri P. Govinda Menon as Minister and resignation of Shri Harish Chandra Mathur.

***Ceased to be a Member of the Committee on his retirement from Rajya Sabha w.e.f. 2-4-1966.

INTRODUCTION

1, the Chairman, Committee on Public Undertakings, having been authorised by the Committee to submit the Report on their behalf, present this Twenty-seventh Report on Planning, Management and Administration of Kerala State Government Companies.

2. On a suggestion from the Governor of Kerala, the Speaker directed on the 18th December, 1965 that the Committee on Public Undertakings might examine the working of the State-owned Public Undertakings in Kerala. The Committee accordingly decided to examine the working of State Government Companies in Kerala in general and of the following seven in particular:—

- (1) Travancore Titanium Products Ltd., Trivandrum;
- (2) Travancore-Cochin Chemicals Ltd., Udyogamandal;
- (3) The Plantation Corporation of Kerala Ltd., Kottayam;
- (4) The Trivandrum Rubber Works Ltd., Trivandrum;
- (5) Kerala Ceramics Ltd., Kundara;
- (6) Kerala Premo Pipe Factory Ltd., Trivandrum; and
- (7) Traco Cable Co. Ltd., Ernakulam.

3. The Committee have submitted seven Reports on the working of the above Companies. In this Report the Committee have dealt with some of the aspects relating to planning, management and administration of the Government owned companies of the State. The Committee took evidence of the Chief Secretary and other senior officials of the Government of Kerala on the 4th February, 1966 at Trivandrum. The Report was adopted by the Committee on the 11th April, 1966.

4. The Committee wish to express thanks to the officers of the Kerala State Government and the companies concerned for placing before them the materials and information that they wanted in connection with their examination.

NEW DELHI;

April 19, 1966.

Chaitra 29, 1888 (Saka).

D. N. TIWARY,

Chairman.

Committee on Public Undertakings.

INTRODUCTORY

Kerala is densely populated and unemployment is a major problem facing the Government. Though increased agricultural activity should go a long way to mitigate unemployment it is on industrialisation that the Government has to depend for a better solution of the problem. The State abounds in important industrial raw materials, has good transport facilities by road, rail and waterways, a major Port and finally a literate and intelligent labour.

2. The public sector in the State includes an extensive range of enterprises, plantations, power projects etc. The Government, however, does not have an Industrial Policy Resolution as the Government of India has and the broad division between the public sector and the private sector is not defined. The State has been unable to find the finances for putting up major public sector projects. However, the Government of India has located some of the Central Undertakings in the State and private persons have also started new industries there.

3. The Committee examined the working of seven undertakings in detail and eleven undertakings in general. The investment in these companies is given in Appendix I.

4. The Committee have submitted seven reports on the working of the companies which were examined in detail. In this report some of the general aspects relating to the working of the State Undertakings have been discussed.

5. *The Committee were not generally impressed with the manner and circumstance under which most of the public sector undertakings were established in the State.* In a few cases Government had to step in when the companies owned by a majority of private shareholders ran into difficulties. Here, it was found that a proper study had not been conducted to find out what the shortcomings of the companies were and how best they could be set right. In so far as new industries were concerned, a proper techno-economic feasibility study was not usually conducted before the venture was undertaken or before expansion took place with the result that some of the undertakings are not economically viable.

Technical
Planning
Cell.

6. As there is a large variety and number of undertakings in the public sector, one would have expected the Industries Department to have a good Technical Planning Cell under it. There are several problems of organisation and planning in the setting up of industries and these have to be dealt with in a specialised and scientific manner. The Committee on Plan Projects of the Planning Commission have prepared several excellent documents on various aspects that should be examined and worked out during the various stages of establishment of a project. These may be taken as guides by the Kerala Government.

7. The Industries Department would do well to organise a well-equipped and suitably staffed Technical Planning Cell to concentrate on the broader technical and economic aspects of the Projects. The Cell should be entrusted with the task of examining the Projects from the point of view of their technical feasibility, economic soundness etc., studying the various stages of their execution and coordination at the policy and administrative level. In the opinion of the Committee the setting up of such a cell would contribute to the speedy implementation of the industrial projects and to their efficient working.

II

MANAGEMENT

A. Boards of Directors

8. The Committee examined the constitution of the Boards of Directors of 18 Companies and an analysis of their composition is as follows:—

Officials on Boards.

Chairmen		Boards of Directors including Chairmen and Managing Directors	
Officials.	Non-Officials.	Officials	Non-Officials
14	4	90	50

9. It will be seen that out of a total of 140 persons on the 18 Boards, 90 are officials and 50 are non-officials. The details are given in Appendix I.

10. As a general policy, in the case of Government owned companies, the strength of the Directors has been fixed as seven and the ratio of officials to non-officials has been fixed as 5 : 2. In the KSIDC there are 7 officials and 4 non-officials including the Chairman.

11. The Committee were informed that the officials on the Boards were placed in a majority with the main object of retaining control by Government in the working of the companies.

12. *A Board of Directors should, apart from its role of advising and guiding the affairs of the company, be able to initiate, decide and supervise. To that extent, it is not enough if the Directors merely safeguard Government's interests in the organisation. They should be able to play a more positive role in conducting the affairs of the undertaking by fully appreciating its commercial character and adopting policies in keeping with this factor. In a Board dominated by Government officials there is a danger that there might be a tendency to think in terms of safeguards and avoidance of risks rather than adopting a healthy commercial outlook as a company should.*

13. *The Committee, therefore, recommend that the practice of having a majority of Government officials on the Boards should be reconsidered. More non-officials with experience of industrial management but who have no conflicting business interests with the company should be brought on these Boards. A Board should have financial and administrative talent, technical skill and representatives of labour and personnel management.*

Senior
Officials
on
Boards.

14. The Chief Secretary of the State is a Director of 4 companies, one of which is under the Kerala Government, 2 under the Central Government and one a private sector undertaking in which the Kerala Government is a share holder. The Finance Secretary and the Industries Secretary are Directors of 7 undertakings each. The Director of Industries is a Director of 11 Companies.

15. In this connection the Committee would draw the attention of the Kerala Government to the decision of the Government of India based on various reports and studies on the running of the public sector undertakings, that no Secretary of a Ministry/Department shall be a Member of any Board.

16. The Committee realise that the conditions applicable to the Central Government and Undertakings of the Government of India may not be exactly applicable in a small State like Kerala where a greater amount of Governmental direction might be required in managing the companies. *However, the Committee feel that it would be better if the Chief Secretary or the Secretaries of the Departments are not on the Boards, either as Chairman or as Directors. It is better that the policy-making functions and executive functions are kept separate and are not merged by associating a Secretary with the examination of a scheme which he has previously approved as a Director or Chairman of an undertaking.*

17. *The Committee recommend that the officials on a Board of Directors should normally consist of a representative of the Finance Department, the Industries Department (where the industry is under that Department) or the representative of the Department concerned and a representative of a Department directly interested in the goods produced e.g. the Electricity Board in the case of transformers, cables etc., or the Forest Department in the case of plantations, plywood etc. This would limit the number of officials on each Board. The Committee also see no purpose in having 2 officials from the same Department on one Board e.g. the Secretary, Industries Department and the Director of Industries are common members on the Boards of 3 companies.*

18. *In the case of the Chairman, the ideal arrangement would be to appoint a non-official to lead the Board of Directors. They must be men of provenability with ample time to attend to the problems of the organisation.* The Chairman of Boards. The Committee noticed in this connection that two non-officials on the Boards were Directors of as many as 17 and 20 companies. It would, therefore, be difficult for such men to devote the required time to be Chairman of a big Government Company.

19. The Committee noticed that in the case of five companies, Government had appointed a common full-time Chairman. This was stated to be on an experimental basis to help in the reorganisation of these companies which were formerly departmentally managed and recently converted into Joint Stock Companies. The Government hoped to re-examine the issue after the initial period.

20. *The Committee appreciate the idea of having a common full-time Chairman for these companies.* It would help greatly in coordinating their working, applying uniform standards in administration, solving common problems, having a single channel for liaison with Government etc. It would place the General Managers in a position where they can constantly obtain advice on their day to day problems and it would also give them a greater sense of responsibility as their working would be constantly watched.

21. *If this experiment succeeds, the same system can be followed for other companies.*

22. Another feature which was noticed in regard to the Boards was that some of the officials were Directors of a very large number of companies. Some of the instances are as follows:—

Same official as Director of many companies.

	<i>No. of Companies</i>
Chief Secretary	4
Industries Secretary	. 7 (excluding Electricity Board)
Finance Secretary	. 9 (excluding Electricity Board and Flying Committee).
Director of Industries.	. 11
Managing Director, KSIDC, Trivandrum	15
Managing Director, F.A.C.T., Alwaye	. 9

23. The Committee feel that it would be extremely difficult for an officer to be able to devote time to so many companies if he is to carry out his duties efficiently. The Committee discussed this matter with the representatives of Government who felt that a person who was on a large number of Boards found it difficult even to attend all the Board meetings. *In the Committee's view a person should not be a Director of more than 3 or at the most 4 companies.*

B. Top Management

Deputa-
tionists.

24. Six of the 18 Government undertakings have Managing Directors and the rest have General Managers. In four cases, the Managing Directors were IAS officers and in the other two, they were officials on deputation to the Companies. In the case of General Managers, almost all of them were deputationists from Government Departments.

Second
line of
Manage-
ment.

25. The Committee found one disquieting feature in most of these undertakings *i.e.* the absence of a second line of Management. The Managing Director or the General Manager was in sole charge of administration including personnel and factory management and also of the commercial side of the organization, including sales. The second senior-most person of the factory was the Works Manager or the Officer in charge of the technical side of the factory.

26. When the Chief Executive of a company retires or is transferred back to his parent Department the vacancy is filled by another deputationist who is usually not conversant with Company management. He has to acquire skill in his new post. Modern business management is a highly developed science and requires good knowledge of personnel administration, business methods, marketing techniques, materials management etc. By the time he acquires this knowledge and starts to apply it, he is transferred. In fact the Committee came across several instances where the chief executives were transferred within one or two years of their appointment.

27. The result of this is that the Company suffers. *This can be remedied to a great extent by having a second line of management. These men must be trained in business administration and should be able in time to shoulder the responsibilities of the chief executive either when he goes on leave or when he is transferred. The advantage to Government is that the Company will be in the hands of a competent trained person.*

28. *The second advantage is that the second line executive would share the burdens of management with the chief executive. It seems that the multifarious activities that a General Manager has to attend to are so numerous that he does not find sufficient time to devote to each problem according to the attention it needs. This is not a satisfactory position.*

III

GOVERNMENT CONTROL

Appoint-
ment of
Directors.

29. The main method of Government control over the companies is through the appointment of Government officials as Directors of the companies. The position is as follows:—

(i) *Fully Government owned companies:*

The number of Directors is determined by Government and the Chairman, Directors and Managing Director are also appointed by it. The majority of the Directors are officials and no quorum for a Board meeting is complete unless at least two official Directors are present.

(ii) *Companies in which Government hold majority shares:*

The Boards of Directors are constituted in such a way that the Government Directors have the controlling voice. The Managing Directors/General Managers are also Government officers.

Directions.

30. Government is also empowered to issue directions or instructions in regard to the affairs or conduct of business of the company and the company has to comply with such instructions.

Returns.

31. The Industries Department of the Government receives monthly progress reports from the Kerala State Industrial Development Corporation and the Travancore-Cochin Chemicals Ltd. and quarterly reports from the Government owned companies. Three sections within the Department examine these Reports. The form of quarterly returns from Government owned companies was prescribed on the advice of the Accountant-General.

Control
vague and
undefined.

32. *The Committee found that in actual practice Government control remained very vague and undefined. The Industries Department received the returns from the Companies but such returns tend to be treated in a routine manner and it is doubtful if any analysis of the information received was made, important issues requiring Government's attention were culled out and further follow up action was*

taken. If the returns are merely filed, it serves no purpose and is a waste of time both of the companies who prepare and send them and of the Government Department concerned, who receives them.

33. The Committee came across instances where Government did not seem to be aware of the difficulties of the undertakings though they were such as to cause substantial continuous loss in the working results. The cuse of the faulty chimney in the Kerala Ceramics Ltd., which was dealt with by the Committee in their Twentieth Report is one such instance. The difficulties of the Premo Pipe Factory for want of adequate working capital is another instance.

34. *The Committee feel that the Government Departments concerned, especially the Industries Department should be well aware of the problems of the Government companies. There should be a proper reporting system between the company and Government. This should be (a) by periodical returns giving details of the working of the factory including among other items, the position about raw materials, production, sales, a cost analysis and a narrative of the problems of the factory in regard to specific items and (b) by ad hoc communications to Government on matters of importance as they are likely to happen or as soon as they have happened.*

Reporting System.

35. *Besides these, the Committee recommend that the Government Directors on the Boards should take greater interest in the working of the factories and report to Government on any matter which they think requires attention or looking into. The Government Directors, more than any one else, should be watchdogs of the public exchequer in so far as the companies are concerned.*

IV

POWER AND WATER

A. Power Cuts

36. One of the major problems facing the Kerala industries today is the shortage of power. Every summer since 1962, the industries in Kerala have had to face a severe power cut. This year it has been the worst of all because of the failure of the monsoon last year.

Extent of
loss of pro-
duction.

37. How severe the effect of the power cuts on production has been, will be seen from the following examples:—

F.A.C.T. Udyogmandal

	<i>Loss in production</i>
1962-63	Rs. 2.5 crores.
1963-64	Rs. 2 crores.
1964-65	Rs. 1.5 crores.

In 1965-66 the losses are expected to be very much higher due to longer duration of the power cut.

Travancore-Cochin Chemicals, Udyogmandal

	No. of days of power-cut	Loss in production.
1961-62	51	Rs. 2.20 lakhs.
1962-63	100	Rs. 9.00 lakhs.
1963-64	135	Rs. 30.00 lakhs.
1964-65	88	Rs. 22.00 lakhs.
1965-66 (June to December 1966)		Rs. 40.00 lakhs.

	Annual production	Expected loss in pro- duction due to power cut in 1965-66
	(Rs. lakhs)	(Rs. lakhs)
1. Trivandrum Rubber Works Ltd.	40.00	7.5
2. Trivandrum Spinning Mills Ltd.	44.00	17.00
3. Kerala Ceramics Ltd.	17.2	4.22
4. Kerala Soaps and Oils	76.60	35.00
5. Kerala Electrical and Allied Engineering Co. (P) Ltd.	20.00	4.00

38. Kerala depends almost entirely on its hydro-electric projects for its power requirements. The total generating capacity of the five major hydel units, e.g. the Pallivasal, Shenkulam) Poringal Kuthu, Neriamanglam and Panniar is about 200 MW. The last two projects were commissioned during the Third Five Plan period but unfortunately have not been able to achieve their rated capacity because of the failure of the monsoons year after year.

39. The failure of the monsoons during 1965 was much worse than in previous years and the water storage position in the hydel reservoirs for power generation became very critical. The daily generation from the hydel stations was 32 lakh units before the cut was imposed. With the available storage, the capability of the hydel system during the current summer is only 14 lakh units per day. Thus there is a shortage of capability equivalent to 18 lakh units per day.

40. To supplement the power generated in the State, a temporary supply is being availed from the Mysore State through the Madras transmission system from December 1965. This supply ranges between 2 and 3 lakh units.

41. The power cut in the case of industries is now 50 per cent. In the case of some industries, where the process of production is such that the machinery does not permit a shut down of electricity for any interval, the workers are laid off and the factory closed. Industrial production has been very adversely affected, not to mention the difficulties faced by the workers who are laid off.

Future
Hydel
Schemes.

42. For the future, the hydel schemes under construction are:—

Sholayar	54 MW
Sabarigiri	300 MW
Kuttiadi	90 MW

Of these, Sholayar Project was due to be commissioned last year, but is not ready yet. The first generator of Sabarigiri Project of 100 MW capacity is scheduled to go into production in April 1966 but water there is sufficient only to generate 30 MW.

43. Assuming that all the present schemes go into full production the demand is expected to overtake the production by 1971. If monsoons fail, the power cuts will continue and industry will suffer.

Thermal
Station.

44. The Committee were informed that the State Government has been anxious over this unhappy state of affairs and had prepared a scheme for the installation of a 100 MW thermal power station in the Cochin area using furnace oil available from the Cochin Refinery. A Technical Committee of the Planning Commission and the Central Water and Power Commission of the Government of India examined this proposal and rejected it. The Kerala State Electricity Board has now prepared another proposal for the establishment of a 30 MW station initially, followed by a 50 MW station later. This scheme has now been sent to the Government of India for approval.

45. The Chief Secretary in his evidence before the Committee stated that the minimum requirement of the State was a 100 MW thermal plant and that if this was not installed it might create serious difficulties, as were being experienced at present, when the monsoons fail.

46. The Committee examined this matter and are convinced that if a thermal station is not installed in the State, difficulties, in so far as industrial production in the State is concerned, are bound to continue.

47. No industry can thrive if it has to reduce production to one half for about 100 days in a year. There are several new factories and additional new plants in the existing factories which have been erected in many parts of the Kerala State which are waiting for power in order to be commissioned. Such a state of affairs if allowed to continue is bound to have adverse effects on the economy of the State. The present power cut is for six months. In an already densely populated State, the creation of further unemployment by

lay-off of industrial workers, creates several social problems. *The Committee feel that a 100MW Thermal Unit would meet the requirements of the State in full. Hence the proposal is worth reconsideration by the Central Government. Further, the plant, when set up, should be on a top priority basis.*

48. The Committee further enquired if it would not be feasible for some of the factories to set up small generators of their own to meet their needs when the power cuts take place. The Chief Engineer of the Kerala State Electricity Board in his evidence before the Committee stated that as against 8.4 paise per unit which a factory paid for electricity, it might have to spend 20 to 25 paise per unit if the generator was to be used only for a few months during the power cuts. This undoubtedly is very high.

49. *The Committee recommend that it should be examined, where say six or seven big factories are in a group as in the Alwaye, Ernakulam or Quilon area, whether it would not be advisable to have a common thermal plant or a common generator. This will be cheaper than having individual generators. It may be a little more costly than hydel power but since most of the industries in this country depend on thermal power rather than hydel power, there is no reason why the Kerala industries should not do likewise.*

B. Water problem in the Alwaye Industrial belt

50. The Managing Director of the Fertilizers and Chemicals Travancore Ltd., Udyogmandal had submitted the following Memorandum to the Committee in regard to the difficulties of water in the Alwaye Industrial belt:—

“Periyar is the river that supplies both process and cooling water to the various industrial units located in the Alwaye|Cochin Industrial belt. Drinking water for the region as well as for the Municipalities of Alwaye, Ernakulam, Cochin, Fort Cochin and Willington Island are also met from the Periyar. Originally Periyar had a reasonable flow in summer to keep down salinity. The minimum flow required to keep down salinity is between 800 to 850 cusecs. This flow has been considerably reduced as a result of the projects that had come up in the course of the last decade. An irrigation project called Periyar Valley Scheme takes away a sizeable portion of the water available during summer.

In addition, nearly 200 cusecs are drawn for lift irrigation purposes. As a result the summer flow is around 300 cusecs at present. During summer, FACT spends considerable sums of money every year to put up temporary bunds and locks to stop ingress of salinity. The Irrigation Department also supplements FACT's effort to a certain extent.

The Iddikki Power Project which has been sanctioned will be diverting Periyar waters to the Moovattupuzha river. Iddikki's discharge will be of the order of 1,800 cusecs. The Moovattupuzha basin does not require under any circumstances more than 200 to 300 cusecs. Most of the water will, therefore, be wasted into the backwater.

The Iddikki Project has been conceived in such manner that a diversion of the tail waters back to the Periyar will not be possible. Alternative sources of water to augment the summer flow in the Periyar have therefore to be found.

The Kerala Government had submitted a scheme called the Edamalayar Project on the Periyar to provide for an adequate discharge of water into the river during summer. It involves the installation of a small power station also. When this scheme is established Periyar would be assured of an adequate summer flow to keep down salinity. The Government of India have not yet approved of this scheme. The scheme is vitally important to the industries of the region because, apart from the existing industries, a number of new industries requiring considerable quantities of water will be getting established in the next few years. In the absence of an adequate summer flow these factories will be forced to close down for atleast four months. The temporary arrangements now being done by FACT and the Irrigation Department will be totally inadequate to prevent this calamity. If the Edamalayar Project is not sanctioned quickly and put through with expedition, we will be facing an ironical situation by 1970-71 with plenty of power to run industry but no water during summer to sustain them.

The Edamalayar Scheme can be taken up in two phases *i.e.*, Dam proper in the first phase and the power station in the second. The construction of the dam and the installation of penstock pipes would not involve any foreign exchange. The Kerala State Government as well as the Government of India should, therefore, take this scheme on a high priority basis to safeguard the continuous production of the industries in Ernakulam|Alwaye belt”.

51. The Committee understand that in 1962 a serious situation had developed and all the factories were closed down for periods ranging from a few weeks to a few months due to influx of salinity. Many chemical factories, especially in the public sector, are located in the Alwaye area and saline water is likely to damage the plant and equipment of these factories.

52. *The Committee recommend that the Kerala State Government and the Central Water and Power Commission of the Government of India might study the problem and take adequate measures to ensure that the factories in the Alwaye industrial belt are not affected by lack of good water. If proper measures are not taken, there might be dislocation of production in this hub of Kerala's industries, with detrimental effects to the State.*

FINANCIAL MATTERS

A. Supplementary audit by C. & A. G.

53. During their evidence before the Committee, the managements of certain Kerala State Government Companies represented that the Supplementary or test audit of their accounts, carried out in accordance with the provisions of Section 619 (3) (b) of the Companies Act, was very detailed in nature, followed the pattern of audit of Government Departments and entailed duplication of the work of professional auditors. The Comptroller and Auditor General has, however, informed the Committee that care was taken to avoid duplication of the work of professional auditors and the audit was confined to propriety-cum-efficiency aspects. In case any work done by the professional auditors was also done by Government auditors, test check was merely to satisfy themselves about the accuracy of their work.

54. *The Committee recommend that the C. & A.G./A.G. Kerala might look into the matter and see that while the statutory requirements of audit are complied with, the undertakings concerned are not put to any undue strain in attending to the audit work.*

B. Review of working by Finance Department

55. The Committee noted that in addition to the comments of the Comptroller and Auditor General under Section 619 (4) of the Companies Act, the annual reports of certain Kerala State Government Companies contained the comments of the Finance Secretary to the Government of Kerala as well. They were informed that a provision had been made in the Articles of Association of the newly formed companies with a view to providing Government an opportunity to review their working from year to year.

56. In this connection Sec. 107 of the Articles of Association of the Kerala Premo-Pipe Factory Ltd. is reproduced below:—

“The Company shall submit a copy of the Balance Sheet and Profit & Loss Accounts with a copy of the Auditor’s Report to the Finance Secretary to the Government of Kerala who shall have the right to comment upon or supplement

the Audit Report in such manner as he may think fit. Any such comment upon or supplement to the Audit Report shall be placed before the annual general meeting of the company at the same time and in the same manner as the audit Report”.

57. There is no such provision in the Articles of Association of Central Government Companies with much larger investment. *This extra check in the case of Kerala State Government Companies seems to be unnecessary, particularly when the officials of the Administrative and Finance Departments of the State Government are members of the Boards of Directors of these companies and can therefore, place the viewpoint of the State Government at the Board meetings. They can also obtain any information desired from the Company. Besides this the company also submits certain statements about its working to Government. In view of this, the position may be reviewed by the State Government to determine whether such a provision in the Articles of Association of State Government Companies is necessary.*

58. *The Committee would, however, recommend that the desirability of the State Government presenting a review on the working of State Government Companies to the State Legislature/Parliament when laying their Annual Reports before the State Legislature/Parliament may be considered. In the case of Central Government Companies, Sec. 619 (A) (1) of the Indian Companies Act lays down that such a review should be presented together with their annual reports.*

VI

COST ACCOUNTING

59. The Committee found that cost accounting was not given the importance it deserves, in practically all the factories. Even in the bigger companies like the Travancore-Cochin Chemicals Ltd. it was found that cost accounting was not done in a scientific manner and required considerable improvement.

Need to evaluate accurate cost.

60. It is necessary for the companies to know accurate costs of their various products. For this purpose it is necessary to apportion the cost of the materials and stores consumed, the labour expended and the works and establishment charges incurred, in an equitable and systematic manner in order to indicate the true cost of a job or the production cost per article per ton, per barrel or per standard unit, not only on completion of the products but in their various stages of production. Apart from this, cost accounting is the greatest weapon in the hands of the management for increasing operational efficiency, for reducing costs by improving organisation and effecting economies by increasing output and finally for controlling leakages and wastages, both accidental and deliberate.

Apathy towards costing.

61. The Committee not only found that cost accounting was not done but that there was certain apathy towards this matter. For example the Trivandrum Rubber Works Ltd. stated as follows in regard to cost accounting in the company:—

“Cost accounts are not maintained for all the productive items since it will involve larger labour, require more staff whereby the cost of costing may become heavy”.

62. This is not a correct approach towards cost accounting. Cost accounting may involve expenditure but the system if properly worked, would save more than it costs and without it the management cannot have a correct idea of costs all along the line.

63. *The Committee recommend that scientific system of cost accounting should be introduced in all the factories. A beginning may be made in the case of the 5 companies now working under one common Chairman. It is suggested that there may be one qualified and experienced cost accountant in overall charge and he should organise a cost accounting system in each factory. It is not necessary to have a highly paid cost accountant in each factory.*

VII

INVENTORY CONTROL

Advantages of adopting scientific Inventory control.

64. As in the case of cost accounting, the Committee found that scientific inventory control techniques had not been adopted in the companies. In some cases, the Committee found that a very large quantity of stores had been obtained and stocked. In one undertaking it was found that production was hampered for want of timely receipt of raw materials. These are due to the fact that proper inventory control measures had not been adopted by the companies. The absence of such measures can lead to—

- (i) shortages of raw materials, stores and spare parts which can cause idle time and consequent loss of production;
- (ii) unnecessary accumulation of stocks of inventories which are likely to lead to avoidable capital investment, higher inventory carrying cost and obsolescence losses;
- (iii) frequent purchases of uneconomical small quantities as a result of poor material planning;
- (iv) delays both in procurement and production due to lack of organisation and system in following up orders; and
- (v) losses due to deterioration of stocks as a result of improper storage and handling facilities.

65. These are only some of the consequences that are likely to arise. Many others could be listed according to the special position of an individual factory.

Suggestions for introduction of inventory control techniques.

66. *It is very necessary to introduce proper scientific inventory control measures like fixing of minimum-maximum levels, rationalised codification, simplification and standardisation of stores, value analysis, A.B.C. analysis, materials planning and programming, market research framing of correct purchasing policy and adopting legal and commercial safeguards, greater use of rate and running con-*

tracts etc. The Committee recommend that the position in every company might be reviewed with a view to lay down a complete inventory control procedure for it. Once such a procedure is laid down, the General Manager or Managing Director should ensure that it is followed. Government might obtain the services of an expert for about a year and make him suggest inventory control techniques for each factory.

VIII

SALES

67. The Committee found that in most of the Companies, sales were not properly organised. The Committee have commented in the various reports, on the sales organisation of the respective companies. There are certain common features which the Committee deal with below.

A. Purchases by Government within Kerala State

68. The Committee found that in respect of many companies, the sales within the State were unsatisfactory, specially in regard to Government purchases. For example, the Traco Cable Co. produces cables which they have sold to the Punjab Electricity Board 2000 miles away, but not to the Kerala State Electricity Board. *In fact, the Kerala State Electricity Board should have been the sole consumer of the Traco Cable Co's products and they could have had their special requirements made in the factory. All the money and time spent in calling for tenders and making purchases from private manufacturers in distant places could have been saved. Prices could have been fixed on an agreed formula or Government could have acted as an arbitrator and fixed reasonable prices. Whatever losses or gains there are, they would be of the State Government.*

69. Similarly in the case of the Kerala Premo Pipe Factory, it was found that the State PWD still resorted to purchases of costlier steel pipes while the factory was exploring markets outside the State. *The pipes were successfully tried by the Quilon Municipality and Government should have issued a directive that all future schemes will use these pipes to the extent of production.*

70. In the case of the Pallathara Bricks and Tiles Ltd. the Committee were informed as follows:—

“Sandlime bricks, being a new building material in India, find it very difficult to capture the market. At present, it is merely used by industrial concerns viz. Cochin Refinery, H.M.T. Ltd., educational institutions etc. There is demand in the neighbouring areas too.

It is a well known fact that the P.W.D. is the biggest consumer of building materials like bricks etc. But till this time, P.W.D. has not started the regular use of sandlime bricks in their constructions”.

71. *The Committee feel that this is an anomalous situation. The Government owned company was started in 1951 and nearly 9 years have passed and yet the P.W.D., the principal Government user of building materials does not purchase these bricks. In fact, the P.W.D. could have been the sole purchaser of the company's products.*

72. *Similarly in the case of electrical equipment, soap, crockery, rubber goods, plywood etc., Government should take a policy decision regarding Government purchases of goods which are manufactured in the Government owned factories in the State. In the Committee's opinion the first preference for all Government purchases should be given to products of Government companies. Prices should be on a negotiated basis and Government may act as an arbitrator in case there is a disagreement.*

B. Other Sales

73. The Committee of the Kerala State Industrial Development Corporation Ltd., which examined the Government owned industrial units in the Kerala State had the following to say about market research and sales in the factories:—

“Most of the products are highly competitive and, therefore, call for aggressive sales effort. At present the Board of Management appoints the distributors and fixes the prices. The distributors secure the major portion of the business and the factories have to plan their production schedule to suit the resultant order booked which has often not the best economical production pattern.

There should be closer relationship between the capacity of the unit and the order booked. This would be possible only if there is production design, market study and other sales promotion activities; and the experience of these methods is used to regulate the securing of business by the selling organisation. This should also be utilised to re-adjust production schedules, to review the product design qualify

in keeping with consumer preference, and wherever necessary, to even taper off completely the production of unwanted items.

At present these units were simply not equipped to meet this situation."

74. The Committee found that these remarks of the KSIDC Committee were true of most of the factories. Sales were improperly organised and practically all the factories had selling problems which they were unable to solve.

75. Market research is a very important part of modern marketing. Proper knowledge of consumer needs and preferences can enable a factory to produce according to the market demand. Similarly a proper sales organisation is necessary in order to secure orders, effect supplies and collect dues in time.

76. The Committee feel that this work should be handled by the Office of the Chairman of the Government owned companies in the case of the 5 companies concerned. A common marketing and sales organisation should be organised on modern and scientific lines. As for the other companies whose sales organisation is not very satisfactory, Government should try and organise a common marketing organisation with an experienced marketing executive as the head.

IX

LABOUR RELATIONS

77. The Committee found that in many of the factories, labour relations were not very satisfactory. It is difficult to attribute the reasons for this. *Being in the nature of a general malady, the Committee feel that the State Government should try and get this matter examined by a qualified social scientist to find out if there are any general reasons for this state of relationship between management and labour. Proper remedial measures can then be taken.* **Unsatisfactory relations.**

78. The Committee however noticed that to a great extent the General Managers and Managing Directors were not trained to deal with labour. The persons were mostly trained in Government offices where discipline was inherent. *The Committee, therefore, recommend that it might be advisable for Government to formulate some definite ideas on the subject and send out a detailed confidential circular to all the top executives on the techniques of handling labour within their factories. Besides, the Committee would recommend that seminars might be held of the Top Executives occasionally where problems common to them might be discussed and the experiences shared with a view to evolve proper techniques.*

79. The Committee also noted that a number of Kerala State Government companies (e.g. Traco Cables, Kerala Premo Pipe factory) had not laid down proper procedure for redress of grievances of their employees. *To ensure good labour relations, it is necessary for all the State Government companies to establish a regular grievance procedure from the very beginning. The State Government should issue instructions and ensure that proper grievance procedure is introduced in all the Government Companies within a specified time.* **Grievance procedure.**

NEW DELHI;

April 19, 1966.

Chaitra 29, 1888 (S).

D. N. TIWARY,

Chairman,

Committee on Public Undertakings.

APPENDIX I

Analysis of 18 public sector undertakings.—Composition of Boards of Directors and Investment.

Sl. No.	Name of Undertaking	Chairman		No. of Directors (including Chairman)			Investment (in lakhs)	
		Official	Non-Official	Official	Non-Official	Total	Capital	Loans
1	2	3	4	5	6	7	8	9
1	Kerala State Industrial Development Corporation Limited Trivandrum.		N.O.	7	4	11	300.00	
2	Kerala State Small Industries Corporation Ltd. Trivandrum.			5	4	9	29.88	9.86
3	Trivandrum Titanium Products Ltd. Trivandrum	O.		8	3	11	39.56	10.50
4	Plantation Corporation of Kerala, Kottayam.		N.O.	4	4	8	226.00	
5	Travancore-Cochin Chemicals Ltd. Udyogmandal.	O.		5	2	7	80.00	0.71
6	Pallathara Bricks and Tiles, Sertally.	O.		2	1	4	10.44	2.54
7	Kerala Soaps and Oils Ltd. Calicut.	O.		5	1	6	5.97	25.43
8	Kerala Ceramics Ltd. Kundara.	O.		5	2	7	13.93	23.09
9	Trivandrum Rubber Works Ltd. Trivandrum	O.		5	2	7	24.84	24.84
10	Trivandrum Spinning Mills, Balaramapuram	O.		4	2	6	22.03	56.47
11	Travancore Plywood Industries Ltd.	O.		5	2	7	1.64	3.50

1	2	3	4	5	6	7	8	9
12	Kerala Electrical and Allied Engineering Co. (P), Ltd., Kundara .	O.		5	2	7	10.23	9.98
13	United Electrical Industries Ltd., Quilon.	O.		3	2	5	17.00	..
14	Forest Industries (Travancore) Ltd. Alwaye	..	N.O.	4	5	9	5.17	..
15	Transformers and Electricals Kerala Ltd.	..	N.O.	4	5	9	28.60	..
16	Traco Cable Co. Ltd. Ernakulam	O.		4	5	9	30.17	..
17	Kerala Premo Pipe Factory Ltd. Chavra	O.	..	7		7	12.50	
18	Kerala State Warehousing Corporation, Trivandrum.	O.	..	7	4	11	15.00	

APPENDIX II

Summary of conclusions/recommendations of the Committee on Public Undertakings contained in the Report.

Sl. No.	Ref. to para No. in the Report.	Summary of Conclusions/recommendations
1	2	3
1	5	The Committee were not generally impressed with the manner and circumstance under which most of the public sector undertakings were established in the State. In a few cases Government had to step in when the companies owned by a majority of private shareholders ran into difficulties. Here, it was found that a proper study had not been conducted to find out what the shortcomings of the companies were and how best they could be set right. In so far as new industries were concerned, a proper techno-economic feasibility study was not usually conducted before the venture was undertaken or before expansion took place with the result that some of the undertakings are not economically viable.
2	6-7	(i) As there is a large variety and number of undertakings in the public sector, one would have expected the Industries Department to have a good Technical Planning Cell under it. There are several problems of organisation and planning in the setting up of industries and these have to be dealt with in a specialised and scientific manner. The Committee on Plan Projects of the Planning Commission have prepared several excellent documents on various aspects that should be examined and worked out during the various stages of establishment of a project. These may be taken as guides by the Kerala Government.

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(ii) The Industries Department would do well to organise a well-equipped and suitably staffed Technical Planning Cell to concentrate on the broader technical and economic aspects of the Projects. The Cell should be entrusted with the task of examining the Projects from the point of view of their technical feasibility, economic soundness etc., studying the various stages of their execution and coordination at the policy and administrative level. In the opinion of the Committee the setting up of such a cell would contribute to the speedy implementation of the industrial projects and to their efficient working.

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(i) A Board of Directors should, apart from its role of advising, and guiding the affairs of the company, be able to initiate, decide and supervise. To that extent, it is not enough if the Directors merely safeguard Government's interests in the organisation. They should be able to play a more positive role in conducting the affairs of the undertaking by fully appreciating its commercial character and adopting policies in keeping with this factor. In a Board dominated by Government officials there is a danger that there might be a tendency to think in terms of safeguards and avoidance of risks rather than adopting a healthy commercial outlook as a company should.

(ii) The Committee recommend that the practice of having a majority of Government officials on the Boards should be reconsidered. More non-officials with experience of industrial management but who have no conflicting business interests with the company should be brought on these Boards. A Board should have financial and administrative talent, technical skill and representatives of labour and personnel management.

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The Committee feel that it would be better if the Chief Secretary or the Secretaries of the Departments are not on the Boards of Directors, either as Chairman or as Directors. It is better that the policy making functions and executive

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functions are kept separate and are not merged by associating a Secretary with the examination of a scheme which he has previously approved as a Director or Chairman of an undertaking.

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The Committee recommend that the officials on a Board of Directors should normally consist of a representative of the Finance Department, the Industries Department (where the industry is under that Department) or the representative of the Department concerned and a representative of a Department directly interested in the goods produced e.g., the Electricity Board in the case of transformers, cables etc., or the Forest Department in the case of plantations, plywood etc. This would limit the number of officials on each Board. The Committee also see no purpose in having 2 officials from the same Department on one Board e.g., the Secretary, Industries Department and the Director of Industries are common members on the Boards of 3 companies.

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In the case of the Chairman of a Board of Directors, the ideal arrangement would be to appoint a non-official to lead the Board of Directors. They must be men of proven ability with ample time to attend to the problems of the organisation. The Committee noticed in this connection that two non-officials on the Boards were Directors of as many as 17 and 20 companies. It would, therefore, be difficult for such men to devote the required time to be Chairman of a big Government.

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The Committee appreciate the idea of having a common full-time Chairman for five companies which was stated to be on an experimental basis at present.

If this experiment succeeds, the same system can be followed for other companies.

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The Committee feel that it would be extremely difficult for an officer who is a Director of many companies to be able to devote time to these companies if he is to carry out his duties efficiently.

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The Committee discussed this matter with the representatives of Government who felt that a person who was on a large number of Boards found it difficult even to attend all the Board meetings. In the Committee's view a person should not be a Director of more than 3 or at the most 4 companies.

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27-28

There should be a second line of management in the companies. These men must be trained in business administration and should be able in time to shoulder the responsibilities of the chief executive either when he goes on leave or when he is transferred. The advantage to Government is that the Company will be in the hands of a competent trained person.

The second advantage is that the second line executive would share the burdens of management with the chief executive. It seems that the multifarious activities that a General Manager has to attend to are so numerous that he does not find sufficient time to devote to each problem according to the attention it needs. This is not a satisfactory position.

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The Committee found that in actual practice, Government control over the working of the companies remained very vague and undefined. The Industries Department received returns from the Companies but such returns tend to be treated in a routine manner and it is doubtful if any analysis of the information received was made, important issues requiring Government's attention were culled out and further follow up action was taken. If the returns are merely filed, it serves no purpose and is a waste of time both of the companies who prepare and send them and of the Government Department concerned, who receive them.

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34-35

The Committee feel that the Government Departments concerned, especially the Industries Department should be well aware of the problems of the Government companies. There should be

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a proper reporting system between the company and Government. This should be:

- (a) by periodical returns giving details of the working of the factory including among other items, the position about raw materials, production, sales, a cost analysis and a narrative of the problems of the factory in regard to specific items; and
- (b) by *ad hoc* communications to Government on matters of importance as they are likely to happen or as soon as they have happened.

Besides these, the Committee recommend that the Government Directors on the Boards should take greater interest in the working of the factories and report to Government on any matter which they think requires attention or looking into. The Government Directors, more than any one else, should be watchdogs of the public exchequer in so far as the companies are concerned.

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46-47

The Committee examined the question of power shortage in the state and are convinced that if a thermal station is not installed in the State, difficulties, in so far as industrial production in the State is concerned, are bound to continue.

No industry can thrive if it has to reduce production to one half for about 100 days in a year. There are several new factories and additional new plants in the existing factories which have been erected in many parts of the Kerala State which are waiting for power in order to be commissioned. Such a state of affairs if allowed to continue is bound to have adverse effects on the economy of the State. The present power cut is for six months. In an already densely populated State, the creation of further unemployment by lay-off of industrial workers, creates several social problems. The Committee feel that a 100MW Thermal Unit would meet the requirements of the State in full. Hence the proposal is worth reconsideration by the Central Government. Further,

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| | | the plant when set up, should be on a top priority basis. |
| 13 | 49 | The Committee recommend that it should be examined, where say six or seven big factories are in a group as in the Alwaye, Ernakulam or Quilon area, whether it would not be advisable to have a common thermal plant or a common generator. This will be cheaper than having individual generators. It may be a little more costly than hydel power but since most of the industries in this country depend on thermal power rather than hydel power, there is no reason why the Kerala industries should not do likewise. |
| 14 | 52 | The Committee recommend that the Kerala State Government and the Central Water and Power Commission of the Government of India might study the problem of influx of salinity in the Periyar River and take adequate measures to ensure that the factories in the Alwaye Industrial belt are not affected by lack of good water. If proper measures are not taken, there might be dislocation of production in this hub of Kerala's industries, with detrimental effects to the State. |
| 15 | 54 | The Committee recommend that the C. & A. G./A. G. Kerala might look into the representation made by the managements of certain Kerala State Government Companies that the supplementary or test audit of their accounts, carried out in accordance with the provisions of Section 619(3)(b) of the Companies Act, was very detailed in nature, followed the pattern of audit of Governments and entailed duplication of the work of professional auditors. While the statutory requirements of audit are complied with, the undertakings concerned should not be put to any undue strain in attending to the audit work. |
| 16 | 55-57 | The Committee noted that in addition to the comments of the Comptroller and Auditor General under Section 619(4) of the Companies Act, the annual reports of certain Kerala State Government Companies contained the comments of |

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the Finance Secretary to the Government of Kerala as well. They were informed that a provision had been made in the Articles of Association of the newly formed companies with a view to providing Government an opportunity to review their working from year to year.

There is no such provision in the Articles of Association of Central Government Companies with much larger investment. This extra check in the case of Kerala State Government Companies seems to be unnecessary, particularly when the officials of the Administrative and Finance Departments of the State Government are members of the Boards of Directors of these companies and can therefore, place the viewpoint of the State Government at the Board meetings. They can also obtain any information desired from the Company. Besides this, the company also submits certain statements about its working to Government. In view of this, the position may be reviewed by the State Government to determine whether such a provision in the Articles of Association of State Government Companies is necessary.

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The Committee would recommend that the desirability of the State Government presenting a review on the working of State Government Companies to the State Legislature/Parliament when laying their Annual Reports before the State Legislature/Parliament may be considered. In the case of Central Government Companies, Sec. 619 (A)(1) of the Indian Companies Act lays down that such a review should be presented together with their annual reports.

The Committee recommend that scientific system of cost accounting should be introduced in all the factories. A beginning may be made in the case of the 5 companies now working under one common Chairman. It is suggested that there may be one qualified and experienced cost accountant in overall charge and he should organise a cost accounting system in each factory. It is

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not necessary to have a highly paid cost accountant in each factory.

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It is very necessary to introduce proper scientific inventory control measures like fixing of minimum-maximum levels, rationalised codification, simplification and standardisation of stores, value analysis, A.B.C. analysis, materials planning and programming, market research framing of correct purchasing policy and adopting legal and commercial safeguards, greater use of rate and running contracts etc. The Committee recommend that the position in every company might be reviewed with a view to lay down a complete inventory control procedure for it. Once such a procedure is laid down, the General Manager or Managing Director should ensure that it is followed. Government might obtain the services of an expert for about a year and make him suggest inventory control techniques for each factory.

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The Committee found that in respect of many companies, the sales within the State were unsatisfactory, specially in regard to Government purchases. For example, the Traco Cable Co. produces cables which they have sold to the Punjab Electricity Board 2000 miles away, but not to the Kerala State Electricity Board. In fact, the Kerala State Electricity Board should have been the sole consumer of the Traco Cable Co's products and they could have had their special requirements made in the factory. All the money and time spent in calling for tenders and making purchases from private manufacturers in distant places could have been saved. Prices could have been fixed on an agreed formula or Government could have acted as an arbitrator and fixed reasonable prices. Whatever losses or gains there are, they would be of the State Government.

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22	69	<p>In the case of the Kerala Premo Pipe Factory, it was found that the State PWD still resorted to purchases of costlier steel pipes while the factory was exploring markets outside the State. The pipes were successfully tried by the Quilon Municipality and Government should have issued a directive that all future schemes will use these pipes to the extent of production.</p>
23	70-71	<p>In the case of the Pallathara Bricks and Tiles Ltd. the Committee were informed that the sand-lime bricks manufactured in the factory were not used by the P.W.D. of the State.</p> <p>The Committee feel that this is an anomalous situation. The Government owned company was started in 1957 and nearly 9 years have passed and yet the P. W. D., the principal Government user of building materials does not purchase these bricks. In fact, the P. W. D. could have been the sole purchaser of the company's products.</p>
24	72	<p>In the case of electrical equipment, soap, crockery, rubber goods, plywood etc., Government should take a policy decision regarding Government purchases of goods which are manufactured in the Government-owned factories in the State. In the Committee's opinion the first preference for all Government purchases should be given to products of Government companies. Prices should be on a negotiated basis and Government may act as an arbitrator in case there is a disagreement.</p>
25	75-76	<p>Market research is a very important part of modern marketing. Proper knowledge of consumer needs and preferences can enable a factory to produce according to the market demand. Similarly a proper sales organisation is necessary in order to secure orders, effect supplies and collect dues in time.</p> <p>The Committee feel that this work should be handled by the Office of the Chairman of the Government owned companies in the case of the 5 companies concerned.</p>

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A common marketing and sales organisation should be organised on modern and scientific lines. As for the other companies whose sales organisation is not very satisfactory, Government should try and organise a common marketing organisation with an experienced marketing executive as the head.

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The Committee however noticed that to a great extent the General Managers and Managing Directors were not trained to deal with labour. The persons were mostly trained in Government offices where discipline was inherent. The Committee, therefore, recommend that it might be advisable for Government to formulate some definite ideas on the subject and send out a detailed confidential circular to all the top executives on the techniques of handling labour within their factories. Besides, the Committee would recommend that seminars might be held of the Top Executives occasionally where problems common to them might be discussed and the experiences shared with a view to evolve proper techniques.

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The Committee noted that a number of Kerala State Government companies (*e.g.*, Traco Cables, Kerala Premo Pipe factory) had not laid down proper procedure for redress of grievances of their employees. To ensure good labour relations it is necessary for all the State Government companies to establish a regular grievance procedure from the very beginning. The State Government should issue instructions and ensure that proper grievance procedure is introduced in all the Government Companies within a specified time.