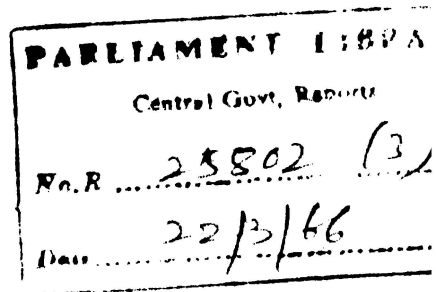


COMMITTEE ON PUBLIC UNDERTAKINGS

(THIRD LOK SABHA)

Twenty Eighth Report of the Committee on
Public Undertakings on Head Office of
Hindustan Steel Limited.



**LOK SABHA SECRETARIAT
NEW DELHI**

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CORRIGENDA

TWENTY EIGHTH REPORT OF THE COMMITTEE ON PUBLIC UNDERTAKINGS
ON HEAD OFFICE OF HINDUSTAN STEEL LTD.

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
4	14	4	'homogeneity'	'homogeneity'
7	25	8	'and'	'any'
9	30	4	'direction	'direct'
9	30	5	delete the line	
13	41	2	'trust'	'trust'
14	47	last	'guidance'	'guidance'
20	68	first	'examine'	'examining'
22	78	4	'no'	'not'
25	86	8	'call'	'cell'
25	86	9	delete 'sons' and substitute the following:- 'informed the committee that it was due to historical reasons.'	
29	98	14	'integrated'	'integrated'
33	115	3	'Saes'	'Sales'
42	150	10	'that'	'the'
44	156	11	'control'	'control'
50	15	9	'Managers'	'Manager'
51	18	2	'of'	'or'
51	20	1	'bests'	'besets'
56	21	8	'running'	'running'
62	67	4	add 'of' after	'question'
64	90	2-3	'Coke Oven'	'Naphtha Cracking'
64	90	5	'Coke Oven gas'	'feed stock'
66	107	8	'Sale'	'Sales'

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COMMITTEE ON PUBLIC UNDERTAKINGS
(THIRD LOK SABHA)

CHAIRMAN

Pandit D. N. Tiwary*

MEMBERS

2. Shri Homi F. Daji
3. Shri Surendranath Dwivedy
4. Shri S. Hansda
5. Shrimati Subhadra Joshi
6. Shrimati Savitri Nigam**
7. Shri Kashi Nath Pandey
8. Shri Krishna Chandra Pant
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11. Shri Abid Ali
12. Shri Lokanath Misra***
13. Shri M. N. Govindan Nair
14. Shri T. S. Pattabiraman***
15. Shri M. Govinda Reddy.

SECRETARIAT

Shri N. N. Mallya—*Joint Secretary.*
Shri A. L. Rai—*Deputy Secretary.*
Shri H. G. Paranjpe—*Under 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. 2nd April, 1966.

I

HEAD OFFICE

A. Introductory

The Hindustan Steel Limited was set up on the 19th January, 1954, as a joint stock company under the Companies Act, 1956 to construct and manage the steel plant at Rourkela. Later on, the Bhilai and Durgapur Steel Plants which were under the control of the then Ministry of Iron & Steel were transferred to the Hindustan Steel Limited on the 1st April, 1957. The idea behind integrating the three projects under one management was that not only there would be savings in overhead costs, but it would also promote a coordinated programme of production, distribution, procurement, training and deployment of personnel.

2. The Hindustan Steel Limited has at present the following projects/offices under its control.

Projects
under the
control of
H.S.L.

Projects .

- (i) Rourkela Steel Plant, Rourkela;
- (ii) Bhilai Steel Plant, Bhilai;
- (iii) Durgapur Steel Plant, Durgapur;
- (iv) Alloy Steels Project, Durgapur;
- (v) Coal Washeries Project, Dhanbad (controlling the washeries at:—
 - (a) Dugda;
 - (b) Bhojudih; and
 - (c) Patherdih.)

Offices:

- (i) Head Office of HSL, Ranchi.
- (ii) Central Engineering & Design Bureau, Ranchi.
- (iii) Sales Office, Calcutta.
- (iv) Transport & Shipping Office, Calcutta.
- (v) Foreign Offices.

3. The working of the Rourkela Steel Plant was examined by the Committee in 1965. This year the Committee have taken up the remaining Projects/Offices. The Committee propose to present separate reports on Bhilai

Steel Plant, Durgapur Steel Plant, Alloy Steels Project and the Coal Washeries. This Report is confined to the Head Office of the Hindustan Steel Limited including the offices directly under it, viz., Central Engineering & Design Bureau, Sales Office, Transport & Shipping Office and the Foreign Offices. The Steel Plants have certain common problems of organization, management, finances, etc. It would have been a repetition to deal with these problems, in the reports on individual plants. The remarks of the Committee on such matters are, therefore, contained in this report on the Head Office which is responsible for overall planning, policy, coordination, control and liaison.

4. The Board of Directors of H.S.L. comprises of one full-time Chairman, who is also the Chief Executive of the Company and six part-time Directors. Among the part-time Directors, one is a Labour leader, two represent private business, one is an officer of the Ministry of Finance, one is Director of the National Metallurgical Laboratory and the sixth is the Chairman of the Heavy Engineering Corporation Ltd. Ranchi.

B. Board of Directors

(a) Past history

5. The Committee note that the Board of Directors of H.S.L. has undergone several changes both with regard to its type and its composition during its existence of 12 years. Originally when H.S.L. was established to manage the Rourkela Steel Plant, it had a Policy Board, consisting of part-time Directors, including the Chairman. After the transfer of Bhilai and Durgapur Steel Plants, the Board was reconstituted, and included three full-time Directors. Except for the composition of the Board, there was no change in the nature of functions of the Board.

Change during the period 1959 to 1961.

6. Subsequently between the years 1959-61, the Board was changed from the policy type to the functional type. This was done in pursuance of the recommendations of the Estimates Committee (33rd Report of Second Lok Sabha). The adoption of the functional Board resulted in the appointment of some of them as full-time Directors. It was during this period that the system of appointing a whole-time Chairman having no special portfolio, was evolved.

Formation of functional Board of Directors.

7. Along with the formation of the functional Board, a Committee of Management (COM) was set up. This Committee consisted of the full-time Directors and the Chairman and carried out most of the functions of the Board. The Board which met once in three months, mostly ratified the decisions taken by the Committee of Management and took decisions only on proposals which were specially reserved for its consideration. In 1962-63,

the policy Board was again restored. The Board consisted of one whole-time Chairman and rest were part-time Directors. Functional members of the Board were dropped and so were the General Managers of the plants.

8. Apart from the changes in the functions of the Board several changes took place in the composition of the Board of Directors as will be seen from the following:

1954-57: Board consisted of 10 members (5 non-officials) in 1954-55, 7 members (3 non-officials) in 1955-56 and 6 members (3 non-officials) in 1956-57.

During these 3 years, there were three Chairmen of the Board and two Managing Directors of the Rourkela Steel Plant.

1957-58: Strength of the Board was increased to 12 members (3 non-officials and 9 officials).

1958-59: Strength of the Board was reduced to nine members (2 non-officials). The Chairman and the General Manager of the Rourkela Plant changed.

1959-60: The Board consisted of 11 Directors.

1960-61: Strength of the Board was reduced to 9 members. The Chairman changed in October, 1960. The General Managers of the three Plants also changed.

1961-62: 3 Directors changed and Shri M. S. Rao, the present Chairman and Shri Indarjit Singh joined as functional Directors.

At the end of the year the Board consisted of Chairman and 10 Directors.

9. During evidence the Committee enquired how far such frequent changes in the organisational set-up were conducive to the efficient working of the Undertaking. The Secretary of the Ministry of Steel & Mines stated that in the beginning the experience of Government with large scale organisations of the type of the Hindustan Steel Ltd. was rather limited. In his opinion, this was possibly the reason why experimentation continued a little longer than necessary. The Secretary did not, however, think that the changes in the organisational set-up of the company had any adverse effect on the construction and production of the plants.

10. Since 1954, the Board of Directors has had more than 100 persons as its Members and six different Chairmen. The Company has had seven different Secretaries during the same period. The Headquarters of the Company changed five times.

Frequent changes in top management personnel.

11. *The Committee feel that too frequent changes have been made in the Board of Directors of Hindustan Steel Ltd. Before persons, who were placed in charge had settled down and had time to bring to bear their personality and experience on the functioning of the organisation, the system was replaced by a new one wherein the General Managers of the Steel Plants have been given enhanced powers. When a system was found unsuitable and it was decided to change it, it should have been necessary to analyse what were the defects in that system; to what extent it was due to personal relationships and to what extent it was due to the institutional defect and how it was proposed to remove them in the new system. It was necessary to define the management objectives and lay down clearly as to how these objectives were intended to be achieved. The exact division of functions between the Board, the Chairman, the Plant Manager, etc., should have been very clearly defined so as to facilitate its working. This does not appear to have been done. Dissatisfaction in its working was also expressed by Chairman, H.S.L. as well as one of the General Managers of the Steel Plants.*

(b) *Policy vs. Functional Board*

Defects
in the
present
set-up.

12. It is seen that the Board is a wholly policy Board with a whole time Chairman and six part-time Directors, three of whom are non-officials. Of these three, two are industrialists with experience and the third represents labour interests. Such a Board can at best advise, guide and coordinate and is hardly effective in the matter of initiating, deciding and supervising. In short its functions are extremely limited.

Railway
Board Pat-
terns.

13. An alternative to the present policy board could be a functional board similar to that of the Railway Board. The Railway Board is a functional board and, except for the Financial Commissioner, all its directors are drawn from the various services of the Indian Railways. The Chairman of the Board is an ex-officio Principal Secretary to the Government of India and the other members are ex-officio Secretaries. The General Managers of the Zonal Railways are appointed and transferred by the Board.

14. The Chairman, H.S.L., stated during evidence that over a period of time it might be better to develop an organisational pattern similar to that of Railway Board to ensure homogeneity of working between the Head Office and the Plants. The Secretary of the Ministry also agreed that it was a good idea but that it could not be implemented immediately.

15. *The Committee consider that the functional board pattern will be best suited to H.S.L. The difficulty in adopting such a Board immediately is paucity of men with*

adequate qualifications and experience of the industry to occupy the posts of Directors. It would not be in the interests of plants to divert the available competent persons from the operations to the managerial side.

16. *The Committee recommend that efforts should be made to develop a team of experienced and able officers from within HSL and the steel industry in the private sector to manage and direct the affairs of HSL.*

(c) Attendance at Board meetings

17. It came to the notice of the Committee that attendance at the Board meetings has been less than 50 p.c. and often consideration of a large number of items was completed within a very short time.

18. During evidence, the Chairman, HSL, stated that he had also difficulty in holding meetings of the Board. As against 11 meetings in 1964, he added, he could hold only 7 in 1965. Moreover, he was compelled to hold meetings either in Calcutta or Delhi to suit the Directors' convenience. Since they were busy with their own work, they were not able to give continuous attention. In order that the Board does not become merely a paper reading Board and in order to develop closer contacts with General Managers, a meeting of the General Managers was convened a day before the meetings of the Board of Directors. But this is also stated to have proved not successful because of the tendency of the Directors to come only on the day of the meetings.

19. The Secretary of the Ministry also admitted that the role played by the part-time Board cannot be considered entirely satisfactory. He added that a proposal was under consideration to appoint a full-time Vice-Chairman. This would facilitate the Chairman of HSL, to devote more of his time in going to the plants and seeing things for himself. Secondly, the Vice-Chairman, would be able to look after the duties of Chairman in his absence.

20. *The Committee consider the continued thin attendance at Board meetings as a matter of serious concern. Government were aware of this fact because, it was stated that the proceedings of every Board meeting are sent to them. It is needless to say that the management of the affairs of a Public Undertaking in which more than Rs. 800 crores of public funds are invested, should be entrusted to such persons who will not only evince keen interest and show aptitude but also devote the necessary time and contribute to the successful working of the Undertaking. The Committee deprecate that such a state of affairs has been allowed to continue. They recommend that such Directors*

who have not cared to discharge their responsibilities and have not been regularly attending the meetings of the Board should be replaced.

(d) *Qualifications for Directors*

21. Another question which was considered by the Committee was whether it was desirable to appoint persons with qualifications in the steel industry as Directors. The Secretary of the Ministry stated that specialised knowledge was not necessary and that persons who had knowledge of business administration and experience in running big factories would be able to provide good management. Since the number of persons who have specialized knowledge of steel industry is very limited, the Committee consider the present arrangement satisfactory. They would, however, refer to their recommendation at para 15 ante wherein a functional Board is envisaged. When that is adopted, most of the Directors would be having intimate knowledge of the steel industry and its problems.

22. In the present set up where some of the Directors do not possess any direct experience of steel industry, a Director will need some time to get acquainted with the problems facing the Steel Plants before he can usefully contribute towards resolving them. In order to enable him to do so, a minimum tenure should be fixed for Directorship and the Directors should retire by rotation, say, one-third.

(e) *General Managers as Members*

23. The General Managers of the three steel plants were made ex-officio Directors in 1957-58 and later it was decided to omit them from the Board. The Chairman, H.S.L., stated during evidence that if a long term view was to be taken, General Managers as they grow in seniority and experience, should be drafted to the Board as Directors. As persons with knowledge of the problem of Plants they would be useful and they could be made to feel that the best of them could reasonably aspire to become the Chairman. This was the way to build the entire top management of H.S.L. from within the organization. The Secretary of the Ministry stated that if the General Managers are appointed as part-time Directors, the authority of the Board over them would get diluted. He added that the reason for taking them out of the Board was that it was not possible to exercise control over them if they formed part of the Board, and Government did not want to bring them back as part-time Directors.

24. The Committee have discussed the issue of relationship between Chairman and Board of Directors on the one hand and General Managers on the other and control of the former over the latter in subsequent paras. Here the issue is how far the decision to take them as Directors will help the Board in its deliberations and whether it will not be an ideal way of grooming the future Chairman and Directors of H.S.L. The Committee consider that there are advantages in inclusion of General Managers on the Board, but as Government feel that discipline cannot be adequately maintained after this change they would not suggest its adoption at this stage. This would come about when the recommendation in para 15 ante is implemented.

C. Chairman

(a) Powers of the Chairman

25. Under the present system the responsibility for efficient running of the company is on the Chairman. The Committee, however, found that the powers of the Chairman were limited. He had no powers to over rule the General Managers. If the General Managers did not function properly, he could at the most complain to the Government. The General Managers were appointed by Government and the Board of Directors had hardly any say in their appointment.

26. The Committee understand that there were differences of opinion among the Plants and between the Plants and Head Office. Some of the General Managers were not too happy with an apex Organisation and felt that the Plants themselves were big enough to have separate Boards. They would not, therefore, cooperate with the Board. Some of these recriminations had reached serious proportions and were within the knowledge of Government. This is not in the best interests of the Hindustan Steel Limited and of the country. The prime cause for this trouble is the system itself which merely contemplates good personal relationship between the Chairman and the General Managers of the plants for the successful operation of the company. If this personal equation failed, no remedies were envisaged or developed.

Relation-
ship
between
General
Managers
and
Chairman.

27. The Committee view the present situation with concern. It does not augur well for the future of the Hindustan Steel Limited and should be remedied. Government should immediately consider this matter at the highest level and take quick remedial action. The Committee would, however, like to make a few suggestions which should be kept in view while arriving at a solution to the present Head Office—Plant relationship. The Committee are not opposed to fullest autonomy being given to the plants in the matter of operations. The intention in making these suggestions is that where the interests of the

company as a whole are involved, the Chairman or the Board of Directors should have an effective say in the matter:—

(1) The powers of the Chairman should be clearly defined. He should have absolute trust and confidence of the Minister and the Secretary of the Ministry. There should be a system of mutual consultation between the Chairman and Government so that it is ensured that the policy of Government is translated into action by the company and that the Chairman has the fullest backing of Government in his dealings with the General Managers. In case of conflicts between the Chairman and the General Managers, the Chairman should have the powers to issue directions to the General Managers, with the knowledge of Government.

(2) A code of discipline should be chalked out for the different levels. The hierarchy in the administration should be clearly spelled out. Cooperation should not be left to personal equations—it should be codified. Indiscipline should be looked upon seriously by Government and nipped in the bud by suitable remedial action. It should not be merely looked on as an inevitable phenomenon. Indiscipline at the top is bound to permeate to the lower ranks with detrimental effects on the company.

(3) The authority that the Board of Directors or the Chairman will enjoy over the General Managers should be defined in writing. It may also be examined how far it might be useful to make the appointment of the General Manager, in consultation with the Chairman.

(4) A clear cut procedure should be laid down in regard to the solution of inter-plant conflicts. The Chairman should be given the powers to take a final decision if necessary after conflicting view points have been heard by a permanent or ad hoc Committee. His decision should be binding on all.

(b) Tenure of Chairman

28. The persons who held the post of the Chairman of Hindustan Steel Ltd and the period for which they held it are shown below:—

Name	Period
(1) Shri A.K. Chanda	4-3-1954 to 21-9-1954
(2) „ S.S. Khara	22-9-1954 to 10-8-1955
(3) „ S. Bhoothalingam	August, 1955 to 14-4-1958
(4) „ G. Pande	April, 1958 to 15-10-1960
(5) „ J.M. Srinagesh	16-10-1960 to 15-1-1963
(6) „ M. S. Rao	15-1-1963 to date

29. It will be seen that during the last 12 years, six persons have held the post of Chairman of Hindustan Steel Ltd. The Committee discussed the desirability of fixing a minimum tenure of say, five years for the Chairman. The Secretary of the Ministry stated that a fixed period had not been laid down. He added that as far as possible, Government wanted the tenure for Chairman as well as Directors and General Managers to be three to four years.

30. *The Committee note that the Estimates Committee in their Report on Personnel Policies of Public Undertakings had recommended that since the success of an undertaking depended to a large extent on the direction of the undertaking depended to a large extent on the direction and it took him some time to acquire an intimate knowledge of the problems and programmes of the enterprise, the incumbent of these posts should be selected carefully and for a minimum term say of 5 years. This Committee are not aware of the decision taken by the Government on this recommendation.*

31. *The Committee urge that the question of fixing a minimum tenure for top posts such as Chairman, Managing Director, Director, General Manager, etc. should be examined by Government and a decision taken soon. The Committee are aware that in some cases, the continuance of an incumbent may be detrimental to the efficient performance of the Undertaking. In such cases, it should always be possible for Government to remove an unsuccessful incumbent before the expiry of his term.*

D. Decentralisation

32. Decentralisation was introduced in H.S.L. in three stages. In 1961, the General Managers were given powers to promote persons from non-executive to executive ranks and also executives from one level to the other. They were also given some powers regarding purchases and finance. Further delegation of powers took place in June 1962 (when the term 'decentralisation' was used first). According to this, almost full powers were given to the General Managers in the field of personnel and purchases. The next stage in decentralisation was after a statement (vide Appendix I) made by the then Minister of Steel and Heavy Industries in the Lok Sabha on the 20th September, 1963. The Minister had proposed enhanced delegation of powers only in the case of Durgapur Steel Plant as an experimental measure. It was however thought that the exclusion of the other two plants from participation in the scheme would create administrative problems. Accordingly it was applied to all the three plants.

Introduction of Decentralisation.

33. The main features of the decentralisation scheme in operation are as follows:

(1) Except for rule making powers, approval of the annual budget and laying down of general practices regarding wage structure and bonus, nothing significant has been retained by the Board of Hindustan Steel Ltd. The General Managers have now full powers of promotion, through Local Departmental Promotion Committees and have the right to over-rule their recommendations. All promotions and placements to posts below Rs. 2,500 are now entirely under Plant management. The creation of new posts and alterations in approved scales of pay, however, require Board's approval, particularly those likely to have repercussions in other Plants.

(2) Except the recruitment of Graduate Engineers for the technical services and of non-technical graduates for General Administrative functions at the Junior Officer entry level, all recruitments are made by the Plants;

(3) Manpower planning now rests mainly with the Plants although company-wise forecasting and planning in respect of specific requirements such as training, is done by the Head Office;

(4) The service conditions of the employees are on common company basis and are framed at the Head Office. These require Board's approval.

(5) Except for the compilation of the budget in a consolidated form for being presented to Government; arranging capital, including loan funds; undertaking cost comparisons under different heads for the Plants, compilation and consolidation of the final annual accounts for the company under the Company's Act, the Head Office has reserved no powers to itself. The General Managers have full control over funds required for operation purposes. They make their own purchases of raw materials and are free to spend the budgeted sums as they like.

(a) *Working of Decentralisation Scheme*

34. The Committee enquired whether the decentralisation scheme had worked successfully. It was stated that it was a good decision to give wide powers to the General Managers in respect of matters concerning production and day-to-day administration because of the immensity, variety and complexity of tasks involved. In actual working, however, the need for readjustment of powers had been felt with regard to the following matters:—

- (i) promotions to and above the levels of Deputy Heads of Departments (Rs. 1300—1600).
- (ii) large-scale purchases.

35. During evidence, the Chairman, H.S.L. elaborated the idea behind the contemplated readjustment in the matter of promotions to the level of Deputy Heads of Departments referred to at (i) above. Under the enhanced powers delegated in October, 1963, the General Managers have powers to make appointments and promotions to all the posts except those which require approval of Government under Article 118(22) of the Articles of Association. In the first stage of decentralisation they had been delegated powers to make appointments and promotions to posts below the level of Deputy Heads of Departments (Rs. 1300—1600). The Chairman, H.S.L., informed the Committee that it was the general view of the Board of Directors that for posts of this and higher levels, the promotion should be made on company basis and not on plant-basis. Before the second stage of decentralisation, a Committee consisting of the three General Managers and the Chairman used to make promotions to this and higher levels. In the opinion of the Chairman, H.S.L., the restoration of this system would help in the following ways:—

- (i) It would be possible to give promotion to the most competent men in the company as a whole and there will not be a feeling of frustration in any Plant where the chances of promotion might be limited;
- (ii) It would facilitate knowledge of the working of the three plants producing steel under different technologies.
- (iii) It would facilitate transfer of staff from one Plant to another, from the Head Office to Plants and *vice versa* which would help in building up in the staff loyalty to the company as a whole and not to particular plants.

36. Another view which the Committee considered was that a General Manager who was responsible for the efficient working of a Plant could be expected to exercise real managerial control only through officers at the level of Deputy Heads of Departments and above. So any dilution of his powers in this regard might not be good.

37. The Secretary of the Ministry stated that Government had only issued general instructions to HSL to implement the decentralisation scheme and that delegation of powers to the General Managers in regard to individual matters had been worked out by the Board of Directors of H.S.L. He added that decentralisation had resulted in good production and it would be wrong to retrace the steps and take back those powers from the General Managers.

38. *The Committee feel that it would be advantageous to restore the previous system where promotions to Deputy Heads of Departments and above were made by a Committee consisting of the Chairman and the three General Managers. In the opinion of the Committee, the Chairman's presence on the Appointment Committee would act as a safeguard against favouritism. The return to the old system in this respect should not be considered a retrograde step as the General Managers will continue to enjoy enhanced powers under the decentralised scheme in respect of other matters.*

**Large
scale pur-
chases—
Readjust-
ment of
powers.**

39. The other matter in respect of which readjustment of powers might be necessary is large-scale purchases. The Chairman, H.S.L. informed the Committee that it had come to his notice that in regard to large-scale purchases of iron ore, manganese, coal, limestone, etc., the sellers had taken advantage and charged different prices from different plants. He added that he had suggested to the General Managers to ask the Controllers of Stores and Purchases to meet periodically to exchange notes. The Secretary of the Ministry stated that only one case had come to the notice of Government and that it should not be magnified to the extent of warranting a readjustment of functions between the Head Office and the Plan's. *The Committee agree that for the present it would suffice if the Controllers of Stores and Purchases meet periodically and keep each other informed. A watch should, however, be kept with a view to arrest trends towards inter-Plant rivalries for the purchase of materials and with a view to adopt corrective measures in time.*

(b) Reporting System

40. With the introduction of decentralisation, a reporting system was evolved to keep the Head Office informed on important matters. This consisted of two parts—one where the Plants sent periodical returns to the Head Office in regular proforma and the other where the General Managers communicated matters of vital importance to the Chairman immediately as they were likely to happen or as they happened. This system was stated to have worked well generally, though there were cases where information was either not sent in time or not sent at all. The system of calling the General Managers for a meeting a day before the Board meeting was also evolved. This too had not worked satisfactorily because all the General Managers did not find it possible to attend the meetings. Out of four meetings held, one General Manager did not attend one of them and two other meetings scheduled to be held were cancelled because of his inability to attend.

41. The satisfactory working of the system of inter-communication pre-supposes mutual trust, cooperation and team spirit between the Plants and the Head Office. It is not so much the delegation of powers as the adoption of right attitudes by the persons concerned that really matters. The Committee found that the spirit of cooperation was not forthcoming to the desired extent. If decentralisation is to succeed there should be willingness on the part of the Plants to freely communicate with the Head Office on all important matters. This spirit has to be fostered.

(c) *Sub-Delegation of powers delegated to General Managers*

42. An important aspect of the decentralisation scheme is that powers should be further sub-delegated by the General Managers to their subordinate officers. The position regarding sub-delegation made in Rourkela and Durgapur, is indicated below:—

- (i) In Rourkela, the question of sub-delegation of powers was reviewed after the delegation of enhanced powers to the General Managers in October, 1963. Such a review was not made in Durgapur after November, 1962.
- (ii) In Rourkela, the sub-delegation goes upto the level of Foreman and in one or two cases even upto the level of Assistant Foreman. In Durgapur, the sub-delegation is upto the level of Superintendent and in only a few items upto the level of General Foreman/Assistant General Foreman.
- (iii) The powers delegated to the General Superintendent at Rourkela are wider than those delegated to his counterpart in Durgapur.

43. As regards Bhilai it was stated that no study had been made by the Head Office. The reason for this was that the full picture regarding sub-delegation was received by the Head Office only in October, 1965. The Plant authorities have however stated that this was not correct and that a complete review had been forwarded to the Head Office in May, 1964 and that copies of further reviews had been regularly reported without delay. The Committee do not appreciate such contradictory statements from two responsible authorities.

Sub-delegation of powers in Bhilai.

44. During evidence, the Chairman, H.S.L. stated that the sub-delegation in Rourkela had greatly helped in building up morale and there had been outstanding improvement in the performance of the Plant. The Committee recommend that, based on the experience gained by Rourkela Steel Plant, the sub-delegation in other plants should be reviewed and the plant authorities induced to

undertake maximum sub-delegation of powers consistent with operational efficiency.

E. Personnel Matters

(a) Manpower

45. From a modest beginning of managing a few hundred persons, the Hindustan Steel Ltd. has now under its employment nearly 1,13,000 persons including workers, the supervisory, middle and top management staff. In the steel plants, the powers to create posts and fill them have been delegated to the General Managers. Therefore, the Head Office does not assess the requirements of personnel for these plants but only reviews the increases/decreases in personnel strength as well as costs on personnel. In respect of the other units under the control of the Head Office, a standard force is determined by the Head Office.

**Standard
Force for
Steel
Plants.**

46. It was stated that lack of a standard force concept in regard to the steel plants had resulted in difficulties in fixing budgetary norms. These norms were based on historical costs. In the absence of a standard force, the action taken by the Head Office to control manpower strength and personnel costs had the purpose of bringing to the notice of the General Managers unhealthy trends wherever they arose. The Head Office had also introduced a system of monthly inter-plant comparison to feed the General Managers with information relating to manpower trends in the three plants.

47. *Judging from the rise in the number of persons employed in the three steel plants—to which references have been made by the Committee in their reports on those plants, the Committee consider that the Head Office has not been able to exercise an effective control over the manpower employed in the steel plants. In the absence of a standard force the Head Office cannot have a reliable yardstick to determine the staff requirements. They, therefore feel that standard force for the three steel plants should be laid down preferably by disinterested persons under the guidance of the Head Office.*

(b) Surplus Staff

48. It has been stated that the steel plants of Hindustan Steel Limited are overstaffed. The Committee were informed during evidence that the manpower employed in the steel plants of H.S.L. compared favourably with the private sector steel plants. But when compared with steel plants in the western countries, the manpower in H.S.L. plants was much higher. In order to assess the extent of this difference an effort was made by H.S.L. to collect statistics of Indian and foreign steel plants. Information could not be obtained in absolute figures.

49. The Committee find that manpower requirements for the steel industry in the Fourth Five Year Plan period have been estimated by the "Committee on Manpower for the expansion of the Steel Industry during the Fourth Plan period". The Committee recommend that based on this and other studies, the norms of work loads and manpower requirements should be determined for each steel plant expeditiously. The surplus staff should be absorbed in the expansion programme.

50. The Committee understand that Departmental Selection Committees are constituted for the purpose of recruitment to junior posts in the Steel Plants. In this connection the Committee would invite attention to Para 209* of the 32nd Report of the Estimates Committee (Third Lok Sabha) wherein the setting up of Personnel Commission similar to the Union Public Service Commission was recommended for recruitment to public enterprises.

(c) Training:

51. The Hindustan Steel Limited has a Technical Training Institute in each of the Steel Plants and a Management Training Institute at Ranchi. It was stated that the Technical Institutes located at the plants were staffed and equipped to handle mostly training on technological subjects. They had, therefore, mostly been placed under the General Superintendents of each steel plant who were the Heads of the "Works" departments. The Management Training Institute, on the other hand, was staffed and equipped to handle management training activities. There was considerable collaboration between the two types of institutes, e.g. the non-engineer, Officer-trainees, after receiving the major part of their training at the Management Training Institute, were sent to the Technical Institutes in the plants for receiving technical training for short periods. Similarly, Graduate Engineers who receive most of their training in the Technical Institutes at the plants were sent to the Management Training Institute for short periods to receive training on management aspects.

**Training
Program-
mes con-
ducted so
far.**

*The Committee consider that the problem is one of reconciling the requirements for public responsibility and regularity on the one hand and adequate business and commercial freedom to the greatest possible extent on the other. They feel that the solution lay in establishing a Personnel Commission, similar to the U.P.S.C. for public enterprises, staffed by people with business experience who understand the personnel needs of the public sector. The functions of such a Commission should *inter-alia* be to examine and approve the terms and conditions of service, recruitment, promotion and other personnel policies devised by various public undertakings and prescribe model rules. The Commission can also provide members for being co-opted on departmental recruitment and promotion committees of public undertakings.

52. Since its inception, the Institute at Ranchi had conducted 40 programmes attended by about 780 executive personnel out of which 130 were senior management personnel in the ranks of Deputy Heads of Departments and above.

53. The Committee were informed that the Bhilai Steel Plant had not sent any trainees since February, 1964 to the Management Training Institute. When the Committee took up this matter with the General Manager, Bhilai, he stated as follows:—

“There were only three cases in which we were asked to participate viz. Mill Management Orientation, Graduate Engineers Orientation and Incentive Orientation. I think there was also a Seminar held. The reasons have been explained by me as to why we could not participate in each case. In the first case, we had also run two or three courses of that character earlier. All our graduate engineers have passed that course practically. We said that it will be more or less a repetition of what they have already done. Moreover we are short of staff. You will see from this that nearly 96 persons had to be sent to USSR during that period for the training. In the Mill Management, we were hard pressed for maintaining our own units. Nearly 6.50 lakhs manhours had to be spent for training our own people for the new units. We were in the stage of expansion; the same persons who were there were wanted for training of the people. It was in view of these compelling circumstances and the fact that these courses were not really necessary so far as Bhilai personnel were concerned that we thought that it was unnecessary to send the persons there. So far as the third party was concerned, we sent personnel there. But, as I said, 6.50 lakh manhours had to be spent for training our personnel to fit them in for our 2.5 million tons stage in 1964-65. Those people were also trained by the same persons wanted for training elsewhere. After all, it may be that the training may be sometimes surfeit and excess of training affected the plants to some extent. All arrangements for course of the character that are being made by the Bhilai Technical Institute are also as good as given anywhere else. They rather run in advance of what Ranchi does run for our people here. The same kind of training is given over and over again. Hence I think this is unnecessary.”

54. The above observations support the earlier findings that there was not the fullest cooperation between the plants and the Head Office. But these observations also prove that there was (i) some duplication of training programmes conducted by the Head Office and the Plants; (ii) the Plants were not consulted as to the availability of the trainees for the courses arranged; and (iii) the content of the courses was not very useful.

55. The Committee think that the Management Training Institute at Ranchi has a useful purpose to serve, in addition to such Institutes at the plants. That TISCO and Burma Shell have such central institutes lends support to this view. But so far as the contents of the courses and the timings are concerned, they need re-examination.

F. Financial Matters

(a) Investment :

56. The table given below shows the amount invested by Government in Hindustan Steel Limited both by way of equity and loan:—

(Rs. crores)

Year	Authorised capital	Paid-up capital	Loan outstanding as at the end of year.	Total investment
1	2	3	4	5
1954-55	100	0.05	1.50	1.55
1955-56	100	0.05	6.50	6.55
1956-57	100	5.05	20.50	5
1957-58	300	155.71	20.50	176.21
1958-59	300	300.00	73.10	373.10
1959-60	300	300.00	218.10	518.10
1960-61	300	300.00	306.10	606.10
1961-62	600	300.00	357.10	657.10
1962-63	600	367.00	357.10	724.10
1963-64	600	447.00	357.10	804.10
1964-65	600	528.00	357.10	885.10

Equity-debt ratio.

57. It will be seen that for the last three years the additional investment has been in the form of equity only. In 1962-63 the equity debt ratio was 1:0.97, whereas it is 1:0.67 in 1964-65. The ratio of 1:2 has been considered as the desirable equity-debt ratio for Public Undertakings.

58. It might not be feasible for the steel Plants where heavy investments have to be made on expansions to attain 1:2 Equity-Debt ratio. But the ratio of 1:1 which is the accepted ratio for all public undertakings should have been achieved by now. The Committee recommend that the future investment should take this aspect into consideration.

(b) Working Results

59. A table showing the margin of profit/loss before depreciation and interest and after providing for these is given below:—

(Rs. in million)				
Year	Margin of Profit/Loss before depreciation and interest	Depreciation	Interest	Margin of Profit/Loss after depreciation and interest (cumulative) 3 & 4
1	2	3	4	5
1958-59	2.97	4.54	..	-7.51
1959-60	+4.57	53.10	..	-48.53
1960-61	-11.65	161.74	..	-150.09
1961-62	-92.64	262.94	..	-170.30
1962-63	-230.21	314.27	175.95	-260.01
1963-64	-425.46	406.19	178.20	-158.93
1964-65	-587.50	387.73	178.32	+21.45
TOTAL	+1349.06	1590.51	532.47	-773.92

It will be seen that till 1963-64 the Hindustan Steel Limited has been working at a loss. Though it has earned a profit of Rs 21.45 million during 1964-65, it was stated

that because of the expansions the working results for the year 1965-66 were expected to show a loss of Rs. 15 million.

60. The Committee find that according to an estimate made earlier by HSL, it was to earn sizeable profits from 1964-65 onwards. The forecast of profits made by HSL for the period 1964-65 to 1968-69 is given below:—

(Rs. in Million)

Forecast of profits for the years 1964-65 to 1968-69.

Year	Margin before depreciation and interest	Depreciation	Interest	Margin after depreciation and interest
1964-65	+558.0	318.0	176.0	+64.0
1965-66	+692.7	387.0	193.5	+112.2
1966-67	+803.4	447.0	223.5	+132.9
1967-68	+856.2	479.0	239.5	+137.7
1968-69	+895.9	496.0	248.0	+151.9
TOTAL	3806.2	2127.0	1080.5	598.7

61. The reasons for actual profits during 1964-65 being lower than the forecast made earlier were stated to be as follows:—

Reasons for profit during 1964-65 being lesser than the forecast.

- (i) Loss incurred on the working of the Fertilizer Plant.
- (ii) Increase in rate of interest from 5 to 7 per cent.
- (iii) Increase in provision for depreciation from two shifts to three shifts, with the result that the rate of depreciation had to be increased from 5 to 7 per cent.

62. It will be seen that the forecasts for the years 1964-65 and 1965-66 were off the mark. Since the reasons for the lower or adverse working results were of a continuing nature, it was clear that the actual profits likely to be earned during the years 1966-67 to 1968-69 would be much less than the forecasts. To enable Government and Parliament to have a clear picture about the working of H.S.L., a revised realistic forecast should be drawn up taking into consideration the extra investment likely to be made, the production likely to result from expansion and other relevant factors.

(c) *Capital block*

63. The loss continuously sustained by HSL was stated to be due to the fact that the selling price fixed for the steel products did not cover the cost of production of H.S.L.

Capital
block of
TISCO.

64. The price was fixed by the Tariff Commission on the basis of the Capital block of TISCO/IISCO which was Rs. 1176 per tonne whereas capital block of HSL was as high as Rs. 2800 per tonne.

Reasons
for
Capital
Block
being
high in
H.S.L.

65. As regards the reasons for the capital block per ton being high in the case of HSL, the Committee were informed that the Steel Plants of HSL being built in recent years had cost more. After the expansion the gross block was likely to come down to Rs. 2300 per ton.

66. It has been claimed that since HSL was selling steel at prices which were calculated on the basis of a lower capital block it was making an indirect contribution in the stabilisation of steel prices.

67. *The Committee hope that the Committee on cost structure set up by Government to go into the cost structure of the Steel Industry will examine this question.*

(d) *Steel prices*

68. While examine the subject of continuous loss by H.S.L., the Committee enquired as to how steel prices in India compared with the international prices.

The Chairman, HSL informed the Committee that the works costs were very well comparable to international works costs. But higher cost of raw materials due to escalation, excise duty, higher depreciation etc. led to higher selling prices. This aspect was also stated to be under the consideration of the Committee on Cost Structure referred to earlier. It was stated that if higher differential prices were granted to HSL Plants on account of their being new, the financial picture would be altered. It is not understood as to how the raw material costs were higher in India than abroad. Anyway, the suggestion made by HSL must have been put forward to Government who would examine its feasibility.

(e) *Depreciation*

Utilisation
of depre-
ciation for
meeting
working
capital
require-
ments.

69. HSL, has so far made a provision of Rs. 159 crores by way of depreciation. The Committee note that HSL has utilised this sum partly for meeting the losses and partly for meeting working capital requirements. Asked about the reasons, the Committee were informed that as funds had not been provided by Government for working Capital, their requirements had to be met out of the operational funds which included the depreciation provision.

70. During evidence, the Financial Adviser stated that it was a general business practice to utilise the provisions for depreciation and other matters as liquid cash assets to be utilised from day to day.

71. The Secretary of the Ministry expressed the view that H.S.L. ought not to have utilised depreciation provision for meeting working capital requirements. He added that it was not correct to say that Government did not provide working capital. The Hindustan Steel Ltd. had not made use of the cash credit facilities made available to it in the State Bank of India.

72. *The Committee feel that utilisation by HSL of the depreciation provision as working capital is not correct. The working capital requirements should have been determined and arrangements made to obtain the necessary funds from the Bank. As working capital either in the shape of cash credit facility or loan from Government would be available only on payment of interest, there would be a natural restraint on its use. The Committee desire that Government should issue instructions in the matter to all the public undertakings.*

(f) *Cost of Production.*

73. A statement showing the cost of production of saleable steel during the years 1962-63 and 1963-64 is given below:—

Plant	Cost of steel.		Percentage of reduction.
	1962-63	1963-64	
Rourkela	796	682	14%
Bhilai	495	452	9%
Durgapur	566	469	17%
H.S.L. (as a whole)	591	517	13%

74. The Chairman, Hindustan Steel Limited stated during evidence that substantial reduction in cost was possible during 1963-64 as compared to 1962-63 largely because full production was reached during that year in all the plants. After that, it had not been possible to achieve any substantial reduction of costs. Any further reduction in cost would depend on improvement in efficiency which was marginal. On the other hand, the cost of raw materials

had gone up. The Chairman, Hindustan Steel Limited added that the Plants and the General Managers were cost conscious and were alive to the problem of cost reduction.

75. The Secretary of the Ministry stated during evidence that Government had repeatedly stressed the importance of keeping the costs down. *The Mahtab Committee was also expected to investigate into this matter. The Committee hope a sizeable reduction in cost of production will be achieved.*

G. Research

76. At present each steel plant has got research and control laboratories but there is no coordination among them. The Committee were informed last year when they examined the Rourkela Steel Plant that it had been decided to appoint a senior metallurgist at the Head Office to coordinate the research activities of the Plants. It was also stated that there was a proposal to set up a central research institute.

Central
Research
Institute.

77. During evidence, the Chairman stated that the Institute could not be set up because there was some resistance to its establishment. Another question which appears to have been raised was the desirability of incurring heavy capital expenditure on it at this stage. The thinking therefore was in favour of forming a body with the Chief Metallurgists of the three Steel Plants with one person over them and having a governing body consisting of the three General Managers and the Director of National Metallurgical Laboratory.

78. *The Committee consider that the institution of these bodies can at best only secure coordination of individual programmes undertaken by the laboratories in each plant, but no initiate and direct a comprehensive programme of research in various aspects of steel technology, which is so vital for the steel industry. The Committee feel that establishment of a Central Research Institute would be advantageous.*

II

CENTRAL ENGINEERING & DESIGN BUREAU

A. Historical

79. An important step for rapid and balanced industrial growth is self-sufficiency in technical know-how. The need for developing a design organisation for the steel industry has been felt ever since steel plants were set up in the public sector. But it was only in 1959 that a definite shape was given to the idea, when a Central Engineering & Design Bureau was set up at Rourkela. The Bureau has been progressively strengthened with the result that in 1961-62 it emerged as an independent consulting agency under the Hindustan Steel Ltd. The Head Office of the Bureau was shifted from Rourkela to Ranchi, early in 1964.

Setting
up of the
Bureau.

B. Functions

80. The main functions of the Bureau are: to build a core of engineers who could prepare and plan projects, introduce innovations, render essential engineering services and generally perform the functions of Consulting Engineers. A detailed list of the functions of the Bureau is given at Appendix II.

Functions.

81. Important activities so far undertaken by the Bureau are given below:

Activities.

- (i) Studied lay-outs, designs and methods of construction adopted in the three steel plants;
- (ii) Prepared the Detailed Project Reports for the expansion of Rourkela and Durgapur Steel Plants to 1.8 million tons and 1.6 million tons respectively and supervising the work of expansion;
- (iii) Prepared specifications for Pipe Bituminising Plant of Rourkela Steel Plant;
- (iv) Completed designs and drawings for soaking pit expansion and drawings for 17,000 tons of structural steel for rolling mill extension at Rourkela;
- (v) Took over the residual work of the German consultants of Rourkela Steel Plant in January, 1962;
- (vi) Finalised technical specifications including layout drawings for the 5th blast furnace at Durgapur;

- (vii) Finalised technical specifications and layout drawings regarding proposed selective crushing plant at Durgapur;
- (viii) Conducted preliminary investigation regarding conversion of dolomite kilns into lime kilns at Rourkela.
- (ix) Preparation of Project Report and layout drawings for expansion of Durgapur Steel Plant from 1.6 to 3.4 million tonnes and a feasibility Report for the further expansion of the Rourkela Steel Plant beyond 1.8 million tonnes during the Fourth Plan period.
- (x) Preparation of special report regarding the cokeoven unit at Rourkela with a view to ensure supply of gas to the Fertilizer Plant in adequate quality and quantity.

Items of work on hand.

82. At present, the Bureau has the following major items of work on hand:—

- (i) First stage expansion of Durgapur and Rourkela Plants.
- (ii) (a) Second stage expansion of Durgapur (Project Report submitted).
(b) Second stage expansion on Rourkela (Studies under progress).
- (iii) High temperature carbonisation and fertilizer complex of Ramgarh on behalf of National Coal Development Corporation Ltd.

83. It will be seen from the above that the Bureau has not so far been entrusted with the preparation of a Detailed Project Report for a new Steel Plant although according to the Bureau "planning and engineering of an entirely new plant is not in any way more complicated or difficult than the expansion of an existing steel plant".

Detailed Project Report for Bokaro not entrusted to Bureau.

84. The Committee understand that the preparation of the Detailed Project Report for the Bokaro Steel Plant was initially entrusted to M/s Dastur & Co. instead of the Bureau, because the Bureau at that time had certain items of work in hand like the preparation of the Detailed Project Reports for the expansion of the Rourkela and Durgapur Steel Plants beyond 1 million tonnes capacity and the work relating to Bokaro would have necessitated the discontinuance of some of them. Moreover, though the organisation had the competence, it did not have the necessary manpower. The Chief Engineer of the Bureau informed the Committee that it was rather early for the Bureau in 1962-63 to undertake the preparation of the Detailed Project Report for the Bokaro Steel Plant. The Bureau is, however, ready at present to undertake this kind of work, if it is given advance notice of about a year.

85. *The importance of utilising Indian talent to the maximum extent for meeting the technical requirements of Public Sector industries needs no emphasis. Since the Bureau by successfully preparing the Detailed Project Reports for the expansion of the Rourkela and Durgapur Steel Plants has established its competence for the preparation of such Detailed Project Reports. Government should entrust the preparation of the Detailed Project Reports for future public sector Steel Plants to it.*

The Committee are glad to learn that the Bureau was associated in the study made by the Anglo-American consortium for the fifth public sector Steel Plant. The experience thus gained should be fully utilised in future planning.

86. *The Committee note that though the preparation of the Detailed Project Reports for expansion of the Rourkela and Durgapur Steel Plants was entrusted to the Bureau, similar work relating to the Bhilai Steel Plant was not entrusted to it. The Detailed Project Report for the Bhilai Steel Plant's expansion was prepared by GIPROMEZ (the Soviet Design Organisation) with the assistance of Bhilai Design Cell for a fee of Rs. 70 lakhs. The Chairman, H.S.L. says that the Bureau was not entrusted this work. The Bureau has not been associated with the Bhilai Steel Plant from the very beginning. The Ministry of Iron & Steel have, however, stated that since the Bureau had to devote its undivided attention to the 1.6 million tonnes expansion scheme of the Durgapur Steel Plant and 1.8 million tonnes expansion of the Rourkela Steel Plant, it was not considered desirable to entrust it also with the preparation of the Detailed Project Report for the Bhilai Steel Plant's 2.5 million tonnes expansion.*

DPR for expansion of Bhilai not entrusted to the Bureau.

87. *The Committee are not convinced by the reasons advanced for not entrusting the work for preparation of the Detailed Project Report for the expansion of the Bhilai Steel Plant to the Central Engineering and Design Bureau. When an expert organisation had been built by the H.S.L., which is competent to undertake such work, there was no justification in spending foreign exchange to the tune of Rs. 70 lakhs by entrusting it to an outside authority. It was known to the Government in advance that the Bhilai Steel Plant was to be expanded, if the Central Engineering and Design Bureau had been forewarned it could have recruited and trained the necessary staff to undertake this work. The Bhilai Design Cell was also in existence and was familiar with the design and layout of the Plant. With the assistance of this Cell, it should have been possible for the Central Engineering and Design Bureau to undertake this work. This might be done when preparation of the Detailed Project Report for the second stage expansion is taken up.*

88. *It was stated during evidence that the work relating to supervision of the first stage expansion of the Durgapur and the Rourkela Steel Plants would keep the Bureau functions.*

Scope of Bureau's functions.

engaged till early 1967. The second stage expansion of the Plants is likely to take nearly four or five years. The Central Engineering and Design Bureau had for the present planned for only upto the end of the Fourth Five Year Plan. The Chairman, H.S.L., admitted that if a more purposeful effort had been made, the Bureau could have been enlarged and entrusted with many other items of work. *It is regrettable that even after a decade of its existence, the H.S.L. had not been able to so equip the Bureau as to be able to undertake all the work, that is offered to it or which could be procured if it had the necessary complement. The Committee feel that urgent attention should be paid to the strengthening of the Bureau and widening its scope of activities, so that it is made into a first class consulting agency for all designing and engineering work for the steel industry. Government's plans should also be made known to the Bureau well in advance so as to enable it to arrange and train sufficient staff for the task. The present state of affairs of the Central Engineering and Design Bureau not being able to arrange requisite staff because Government had not given advance indication of work that they intended entrusting to it and Government on their part not entrusting the work to the Central Engineering and Design Bureau because its hands were full, should be ended.*

89. In this connection the Committee find that the Bureau has undertaken some consultancy work on behalf of the National Coal Development Corporation Ltd. While such attempts deserve encouragement, the Committee hope that it is not being done at the cost of essential work of the Steel Plants. The Bureau's primary aim should be to render an efficient and competent consultancy service for the steel industry both in the public and private sectors.

Association of the Bureau in resolving the difficulties and problems of Plants.

90. The Bureau has been entrusted with the work of preparing a special Report regarding the Naptha cracking unit at the Rourkela Steel Plant with a view to ensure adequate quality and quantity of feed stock to the Fertilizer Plant. The Committee welcome this work and desire that the Bureau should increasingly be assigned such roles.

C. Bhilai Design Cell

Setting up Bhilai Design Cell independent of the Bureau.

91. There is a design cell at the Bhilai Steel Plant which is independent of the Bureau.

92. In 1961 a Committee was set up under the Chairmanship of Dr. Nagaraja Rao, the then Chairman of Heavy Engineering Corporation Ltd. and with Directors (Production) and (Construction) of the H.S.L. to examine the

organisation of the Central Engineering and Design Bureau. They recommended that the Central Engineering and Design Bureau should function directly under the Chairman of the H.S.L. and it should have under its jurisdiction the design wings of all the three units including that of Bhilai. The Bhilai Design Cell should, however, continue for the time being to function as a self-contained unit with its own staff and the team of Soviet Consultants, to deal with the expansion of the Bhilai Units. They had, however, recommended close liaison between the Bhilai Cell and the Central Engineering and Design Bureau as being mutually advantageous.

93. In September, 1964 the Chairman, H.S.L. in a letter to the Secretary, Department of Iron and Steel stated that the Cell had grown under the guidance of the Russian experts and its experts had assisted in preparation of detailed drawings for the 1 million tonne plant and all other local studies connected therewith. The Cell had, therefore, benefited by the discipline and meticulous care for detail in practical affairs characteristic of the Russian Experts; but apart from Soviet Technology, the Cell had not seen much of the outside world, although this was not to say that the staff of the Cell had not done considerable original work by themselves. The Chairman, however, felt that mingling the Central Engineering and Design Bureau and the Bhilai Design Cell would not do good to either as they were in midstream with the expansions. Differences in outlook and method of work would cause frustration and irritation on both sides. It would create very serious personnel problems of settling respective seniorities etc. The Chairman, therefore, was of the opinion that reuniting the two organisations should only be thought of as a future objective.

94. During evidence the Chairman, H.S.L. stated that the Bhilai Design Cell had taken up the work of the third stage expansion of the Steel Plant and that there might be difficulties in a merger at this stage. He, however, stated that the Chief of the Russian Design Organisation, GIPROMEZ, Mr. Goubert had also stated that the design organisation of the H.S.L. should be centralised. As for close liaison and free exchange of ideas between the two organisations, as had been envisaged, the Chairman, H.S.L. stated that both the organisations had worked on parallel lines and there had been very few instances of exchange of ideas. In short, the position in this regard, as originally visualised, had not materialised so far.

95. *The Committee are surprised that although the intention from the very beginning has been to unite the two units, steps towards integration have not been taken. On the other hand the factors forcing the two to remain apart have been allowed to grow. Till 1961, the Bhilai Design Cell was allowed to remain separate because it was in the midst of one million tonne stage. Before further expan-*

sion to the 2.5 million tonne stage was entrusted to the Cell, it could have been merged with the Central Engineering and Design Bureau. This was, however, not done. Again there seems to be presently no serious effort to merge, because the Bhilai Design Cell has taken up the work of 3.5 million tonne expansion. In 1964, when the matter was reviewed by the Chairman, H.S.L., the difficulties of integration and conflicts about seniorities stood in the way. This is an untenable reason, as this position would continue to exist as long as the two organisations are separate. In fact, the longer they are kept apart the problem will be further aggravated as more men would be involved because of further recruitment and promotions in two organisations. It is not an unsurmountable difficulty and several organisations faced with this problem in much larger dimensions, e.g. the Life Insurance Corporation, Air Corporations etc. have solved it successfully.

96. The Central Engineering and Design Bureau and the Bhilai Design Cell have been developed separately. The Central Engineering and Design Bureau had acquired the know-how from the German and the British Designers while the Bhilai Design Cell had been nurtured in the Russian Technology. According to the Chairman H.S.L., both had 'tended to go in parallel lines'. When both the institutions are under the H.S.L. and do the same type of work, this inclination to work in watertight compartments has not been appreciated by the Committee and specially when head of the Gipromez had even stated that designing work should be completely centralised. There is no doubt, it will be to the benefit of the H.S.L. and ultimately that of the country to pool the skill and experiences of the two institutions. It would result in some economy also. The difficulties about integration and conflict of seniorities which the HSL seems reluctant to deal with, will always be there whenever a merger of these two parallel establishments is attempted. In the Committee's opinion this two-fold system ought to be unified at the first convenient opportunity.

III

A. Formation

97. Hindustan Steel Ltd. entered the sale market with pig iron in the beginning of the financial year 1959-60. It was the product of the Bhilai Steel Plant and was immediately followed by that of the Rourkela Steel Plant. The sales were effected by establishing separate order departments at the two Plants and a small office at Calcutta for liaison work with the Iron and Steel Controller.

98. On the 22nd March 1960, on the recommendation of Shri K. C. Mahindra, a Director, who was asked to evolve a pattern for the sales organization of the three Steel Plants the Board decided to create "a combined Sales Department for all the three steel plants to be located at a central place and the establishment of three separate order Departments at the three Plants". In making this recommendation, Shri Mahindra took note of the organisational set-up of the Sales organisations of TISCO, IISCO and the Nippon Kokan Steel Company of Japan. The implementation of this decision took time. Thus the Commercial Division from the Head Office and Sales Departments from Durgapur and Rourkela shifted to Calcutta during 1961. An integrated sales office came into being in January, 1963 when the Sales Department of Bhilai was shifted to Calcutta.

99. A review of the sales set-up was made by Government in July 1962 while considering the decentralisation scheme. It was decided to continue to deal with sales on a centralised basis. Review of Sales set-up.

B. Centralisation of Sales Work

100. Some of the factors which influenced centralisation of the sales work are stated to be—

- (i) Problems arising out of control over pricing;
- (ii) Planning of production and distribution of steel products;
- (iii) Close liaison with Iron & Steel Controller, Calcutta;
- (iv) Maintenance and expansion of contacts with customers;
- (v) Co-ordination of production programmes so as to be in line with the demand; and
- (vi) Uniform sales policy.

Decision to integrate Sales Work.

101. It was brought to the notice of the Committee that there were certain disadvantages in the present arrangements. For instance, the maintenance of a Central Sales Office at Calcutta added to the selling expenses. The expenditure incurred by the Calcutta office by way of salaries during 1964-65 was Rs. 28.26 lakhs in addition to Rs. 11.46 lakhs spent by the Plants on their own Order Departments. One of the Steel Plants, informed the Committee that the selling expenses which would have been incurred by it in the absence of the Central Sales Office, would have been less than the amount of Central Office expenses allocated to it.

102. The Committee discussed during evidence the need for having a centralised Sales Office and enquired whether the Plants could not directly deal with the Joint Plant Committee in receiving indents and executing them as TISCO and IISCO do. They were informed that while this was possible, note had to be taken of the fact that the Central Sales Office played a large part in seeing that the indents are translated into effective commercial orders by pointing out to the customers the exact specifications which can be offered, in arranging despatch programmes after finalising the necessary financial arrangements, etc. The Central Office was also responsible for follow-up of the orders, and realisation of dues. The setting up of sales offices at individual Plants would result in duplication of staff and unhealthy competition among the Plants.

103. The other advantages of the Centralised Sales Organisation, were given as follows:

- (i) A common unit to handle all matters connected with prices and extras;
- (ii) A common statistical and market research unit;
- (iii) A common sales engineering and inspection unit;
- (iv) An integrated commercial publicity unit under development;
- (v) A common finance and accounts division;
- (vi) A common export sales unit;
- (vii) Common Branch Sales Offices and stockyards in various parts of the country;
- (viii) Uniformity in terms and conditions of sale and in systems and procedures;
- (ix) Unified liaison with outside bodies;
- (x) Uniform procedure for settlement of customers claims and complaints.

104. The balance of advantages lies in favour of keeping the sales work centralised particularly so long as the three Steel Plants are under one management. The working of the Sales Office, however, needs improvement. This has been discussed in paras that follow.

105. One of the Steel Plants informed the Committee as follows regarding management of the Sales Office:—

"Plants should be given a very close interest in the sales policy and its implementation. At present this is lacking and the result is a somewhat unrealistic appreciation of the customer and the producer of each others point of view as the Sales Department lacks technical personnel. The same is true of the denial of representation of the Plants on the J.P.C.

No producing Plant can ever be so busy as to neglect its customers".

106. The Committee were further informed that intermediation of Sales Office between the customer and the Plant had two drawbacks. One was where the customer wanted a particular type of steel which was not manufactured in the Plants. The problem was to persuade him to accept a substitute which could either be manufactured or which was already being manufactured. The officials of the Sales Office were not technically equipped to suggest a substitute and did not possess the knowledge if a substitute could be made available. The second drawback was in regard to development of new products, mainly with a view to import substitution. A customer used imported steels of certain specifications prescribed by his foreign collaborators or usually manufactured by foreign countries. It requires an effort to persuade him to change these specifications to one which was possible of development within the country. This required an intimate knowledge of both the customer's requirements and of the technology available in the Steel Plants themselves.

107. These difficulties could be removed if the Sales Office had qualified technical experts to negotiate with customers. It is felt that specialists with previous experience in the plants and with a good knowledge of production technology would be better salesmen. If the present personnel of the Sales Office do not have practical and basic knowledge of steel production they should be given training in the Plants.

108. Another matter which was brought to the notice of the Committee was that the present system of allocating the expenditure of the Central Sales Office to the various Plants left little incentive to the Sales Office to restrict expenditure. In fact one Steel Plant complained that the Plants were not consulted regarding the basis of allocation

of the expenses. The Plants were also not consulted regarding the sales policy. In fact, the Committee were informed that "the Sales Office management is completely divorced from the Steel Plants".

109. The Chief Sales Manager informed the Committee that officers from the Sales Office visited the plants weekly and kept themselves in touch with the activities of the plant. The Chairman, H.S.L. had also stated that before each meeting of the Board of Directors, he called a meeting of the General Managers of the steel plants where, *inter alia*, sales policy was discussed.

110. As regards discussing sales matters at the meetings of the General Managers the Committee note that a decision to hold regular meetings of the General Managers was taken on the 31st August, 1964. It is seen that from that date to the end of 1965 the General Managers met four times only. With such infrequent meetings and sales being only one of the topics which they must have discussed, its problems could not have received much attention from them. This, anyway, is not the same thing as securing an active association of the plants in the working of the Sales Office for a fuller appreciation of each other's problems. Being the parties who are called upon to meet the expenditure of the Sales Office, the Plants should have some voice in formulating the sales policy. The Committee suggest that H.S.L. might examine in consultation with the Plants and the Sales Office the best manner in which this could be achieved.

C. Selling Expenses

111. The table below shows the selling expenses incurred by the H.S.L. during the years 1962-63 to 1964-65. The value of gross sales during the same period is also shown.

(Rs. in Lakhs)

Year	Gross Sales	Selling expenses	Percentage of Selling expenses to Gross sales
1962-63*	12,950	20.50	0.16
1963-64	18,180	33.94	0.19
1964-65	20,140	51.32	0.25

*Includes expenses incurred at the Plants prior to transfer to Calcutta.

112. It will be seen that the selling expenses have increased at a faster rate than the gross sales. The reasons for the increase in selling expenses are stated to be:—

Reasons for increase in expenses.

- (i) streamlining and strengthening of sales;
- (ii) recruitment and training of more officers;
- (iii) establishment of Branch Offices and stockyards;
- (iv) attempts to increase customer contacts for procurement of orders; and
- (v) expenditure on increased publicity as a part of the sales drive for slow moving items.

113. It was stated that there was inevitably some time lag between incurring of expenditure and the accrual of benefits therefrom. It was expected that the percentage of sales expenses to gross sales would stabilise by 1967 when the stock-yards and branch sales offices would have been established.

114. *The Committee agree that in the initial stages it might not be possible to get commensurate return on development expenditure. But they do not think that there was need for incurring so much expenditure on promotion of sales. The percentage of increase in selling expenses should not be allowed to exceed the percentage of increase in gross sales. A close watch should be kept to see that the percentage of selling expenses to gross sales does not rise disproportionately.*

Need for reducing selling expenses.

115. The Committee would also like to draw attention to the disproportionate increase in establishment expenses as compared to the increase in gross sales. The relevant figures are shown below:

Need for reducing establishment expenses.

Year	(Rs. in lakhs)		
	Establishment expenses of Sales Office	Value of Sales	Percentage of establishment expenses to value of Sales
1961-62	2.96*	7930	0.04
1962-63	10.38	12,950	0.08
1963-64	20.73	18,180	0.11
1964-65	30.61	20,140	0.15

116. *It will be seen that the percentage of establishment expenses to gross sales has increased from 0.04 in 1961-62*

*Exclusive of expenses in the Plants during the period Sales Departments were there.

to 0.14 in 1964-65. The Committee trust that the Sales Office would keep the tendency towards rise in establishment expenses under check.

D. Sales

117. The sale of the HSL's products has shown steady progress as indicated below:—

Year	Gross Sales (Rs. in lakhs)
1962-63	12,950
1963-64	18,180
1964-65	20,140

118. Though the demand for steel as a whole is high, it has been stated that there are many items/sections/sizes, etc. where the HSL is short of orders. The items in respect of which the demand is less than the supply are given below:—

- (i) Blooms, slabs and ingots;
- (ii) High Carbon billets;
- (iii) Particular sections of merchant bars;
- (iv) Pig Iron;
- (v) Squares and ribbed bars;
- (vi) Short length structurals, untested broad flange beams and heavy angles;
- (vii) Mixed plates, hot rolled sheets and coils;
- (viii) Pipes;
- (ix) Certain varieties of scrap;
- (x) Certain by-products like Napthalene road tar, coke, etc.

119. During evidence the Committee were informed that the Joint Plant Committee allocated to the Plants the items they should produce. The J.P.C. also determined the tonnage of particular sections that would be produced by each Plant during a quarter, leaving it to the Plants or their Sales Offices to break up that tonnage into various qualities, sizes, etc. These decisions were taken by the J.P.C. after discussions with the representatives of the member companies, i.e. Tatas, IISCO, HSL which involved a good deal of bargaining as to the most desirable product-mix both in terms of sections and tonnage.

120. The Committee desired to know whether this drop in the demand of certain items was not foreseen while determining the product-mix of each plant. In reply the H.S.L. stated in a note furnished to the Committee after the evidence that the product-mix for the steel Plants was approved by Government on the basis of data available when they were being set up. Such data indicated only demand for broad categories like bars, structurals, plates, sheets, etc. The Appraisal of Steel Demand (1960) and Reappraisal of Steel Demand (1963) made by the National Council of Applied Economic Research are also stated to be as per the pattern assumed by Government and did not give complete section-wise details of the demand.

121. The Committee urge that a systematic study should be initiated to determine the pattern of demand for steel products, category-wise and section-wise.

122. The Market Research Unit of the Sales Office should also be geared up to this task. A programme of work should be drawn up and the plants should be kept in touch with the work done by the unit, so that they may benefit from its studies. Hitherto this unit has been mostly engaging itself in collection and collation of statistics and it has been associated with only three studies.

123. While on the one hand the HSL was finding it difficult to sell certain categories of products, the Committee also received complaints that the H.S.L. was not able to fulfil the demand for small quantities of certain items, with the result that the consumers had to depend entirely on the two private sector plants.

124. During evidence, the Chief Sales Manager of the HSL stated that there were certain fast moving items like half inch rounds where there was a considerable backlog of orders. But the design of the steel Plants was such that if it produced only those items, it would end up in a loss. It was, therefore, arranged that the Plants produced certain quantities of all items so as to ensure reasonable profit. An alternative which he suggested is to have more mills of different size ranges in the newer steel plants.

125. While the plants need not be asked to produce fast moving items which will make their running uneconomic, at the same time, the needs of the market cannot be ignored. They suggest that more attention should be paid to diversification of production. The Government should examine the feasibility of having more mills of different size ranges in the newer steel plants as also in the expansion programmes of the existing mills.

E. Exports

Quantum of Exports. 126. The tonnage and value of exports made by the H.S.L. during the years 1959-60 to 1964-65 are given below:

(Qty..... Tonnes)

(Value.....Rs. lakhs)

Year	Iron & Steel		By-products	
	Materials		Qty.	Value
	Qty.	Value		
1959-60	29,000	55.76
1960-61	1,63,000	483.98
1961-62	1,01,300	308.67	500	3.15
1962-63	17,200	41.60	9,000	18.51
1963-64	24,500	91.52	10,500	22.94
1964-65	37,500	126.62	7,800	19.12

127. It will be seen that there was a steep fall in the exports during 1962-63 and though there was a slight recovery in the succeeding years, the exports during 1964-65 are far short of the figure reached in 1960-61. The reasons for this sharp decline are stated to be firstly, from 1961-62 semis were no longer available for export and secondly Government banned the export of pig iron. From 1962 onwards, attempts were made to export finished steel but this had not met with much success because there was heavy loss on exports as compared to domestic realizations and secondly Indian finished steel had not become popular in the export market.

128. As regards the banning of export of pig iron, the Secretary of the Ministry stated that originally it was expected that there would be shortage of pig iron—so much so, that it was decided to import 0.1 million tonnes. Recently, however, there had been some accumulation of pig iron and in the light of that Government was considering whether the ban on its export could be raised. As regards the export of steel categories, bars, structurals and rails would naturally constitute the bulk of exports as these were the categories where production was relatively higher.

Need to release more items of steel for export.

129. The Committee recommend that a study should be made of the demand and supply position of various items of steel and to release more items of steel for export, particularly those in respect of which export potential exists. Hot rolled sheets in coils chequered plates and pig iron are cases in point.

130. In July, 1965 the Minister for Industry and supply emphasised the need for Public Undertakings exporting at least 10 per cent of their production. Government had fixed a national quota of 3 lakhs tonnes of steel for export during 1965-66. Out of this, HSL was initially allotted a quota of 95,000 tonnes which was later raised to 1,43,500 tonnes. It is anticipated that by the end of March, 1966 a total quantity of 70,000 tonnes would have been exported i.e. about 49 per cent only. The reasons advanced by HSL for not being in a position to achieve the target are:—

**Export
target of
Public
Undertak-
ings.**

- (i) Demand in the foreign markets is for combined packets of bars structurals and flat products. HSL's inability to offer flat products even to a limited extent is standing in the way of increasing the volume of exports.
- (ii) Delay in the announcement of subsidies which made it difficult to make export offers on a firm basis.
- (iii) Individual export orders are generally below 1,000 tonnes and it is difficult to get shipping space for loads less than 5,000 to 6,000 tonnes.
- (iv) Out-break of hostilities between India and Pakistan.
- (v) Upward revision of the target at the fag end of the year.

131. *The Committee recommend that Government should take steps to remove the difficulties faced by the HSL in fulfilling its export target. The Committee have in mind difficulties such as the non-announcement of subsidy in time, and the non-availability of shipping space. As for the HSL, more vigorous steps are necessary to increase exports because the present expectation of 70,000 tonnes is only 74 per cent of the original target. The inability to offer flat products is likely to affect the exports in future also. The feasibility of making flat products available, at least to a limited extent, to purchasers abroad should be examined. Their further production in the newer plants might also be considered.*

F. Branch Offices and Stockyards

132. The HSL has so far established nine Branch sales offices. The dates of their setting up and the number of staff are given below:—

	<i>Date of setting up</i>	<i>Staff</i>
(a) Kanpur	1-8-1963	20
(b) Madras	1-9-1963	22

	<i>Date of setting up</i>	<i>Staff</i>
(c) Bombay	1-10-1963	20
(d) Delhi	4-10-1963	33
(e) Bangalore	1-10-1964	3
(d) Hyderabad	16-11-1964	5
(g) Cochin	1-2-1965	4
(h) Ahmedabad	3-2-1965	6
(i) Jullundur	5-9-1965	..

Functions. 133. The functions of the Branch sales office are given below:—

- (i) Keeping the sales office at Calcutta informed of trends of the market for different products and sections.
- (ii) Exploring outlets for arisings of surplus materials thrown up by the Plants from time to time.
- (iii) Collection of direct indents for different categories of steel.
- (iv) Sales liaison work including collection of consignee instructions, purchase orders etc.
- (v) Negotiation of sales documents and chasing up of payments.
- (vi) Investigation of complaints on supplies to their respective areas.
- (vii) Providing information to customers about products manufactured, facilities offered by the HSL etc.
- (viii) To manage and supervise the operations of the stockyards effectively and economically.

Activities. 134. The Branch Offices have actually been responsible for the following activities:—

- (i) Inspection of Complaints.
- (ii) Division/Rebooking of wagons.
- (iii) Resale.
- (iv) Negotiation of sales documents.

135. The HSL has also opened four stockyards for stocking various items of steel in pursuance of the recommendations of the Rajya Committee. The places at which they are situated and the dates on which they were set up are given below:—

	<i>Date of establishment</i>
Madras	4-6-1964
Kanpur	10-6-1965
Hyderabad	1-7-1965
Bombay	1-10-1965
Ahmedabad	8-3-1966
Bangalore	1-4-1966
Cochin	1-4-1966

136. In addition to exerting considerable influence on the price of steel products, these stockyards are stated to have facilitated the availability of critical sections and the equitable distribution of scarce materials.

137. *It is rather early to determine whether the stockyards have achieved the objective for which they were set up, particularly the objective regarding checking the rise in prices. As substantial capital expenditure has been incurred on the establishment of these stockyards, the Committee recommend that their performance should be reviewed after some time with a view to see how far the objectives for their establishment have been realized.*

IV

TRANSPORT AND SHIPPING OFFICE

A. Historical

138. With a view to co-ordinate the work of the three plants, relating to import of f.o.b. materials a Shipping Officer was appointed by the Hindustan Steel Ltd. in 1957. He was put in charge of unloading and clearing consignments on behalf of the steel plants and was responsible to the General Managers of the respective plants. The work of clearing and despatching imported cargo was initially being done through established Clearing Agents.

139. As subsequently there was a drop in the import tonnage and there was some difficulty with the clearing agents over the fees and their services had also deteriorated, it was decided to dispense with their services on the expiry of their contracts and take over all clearance work departmentally. Accordingly on the 1st January, 1963, all clearance work including air freight and postal consignments was taken over departmentally.

140. The Transport and Shipping office as re-organised in 1963-64 is responsible for imports, forwarding of equipment, transport of raw materials, finished products and by-products, export and settlement of claims.

141. The present strength of the office is Executives 12 and Non-executives 484.

B. Operations

(a) Shipping:

142. The volume of imports and exports during the year 1962-63 to 1964-65 and of anticipated imports and exports during the years 1965-66 and 1966-67 are shown below:

(Lakh M/Tonnes)

Year	Imports	Exports	Total
1962-63	0.22	0.26	0.48
1963-64	0.44	0.35	0.79
1964-65	0.88	0.45	1.33
1965-66	0.75	0.70	1.45
1966-67	0.53	N.A.	

143. During evidence the Committee pointed out the decline in anticipated imports and enquired whether there was justification* for employing so many persons in the Shipping Department. The Chairman, H.S.L. explained that in the beginning the imports (F.O.B.) both for Durga-

pur and Rourkela had to be done over a period of time and it was necessary to have that much staff. He agreed that after the next load of equipments arrived, there would have to be considerable retrenchments. *The Committee recommend that keeping in view the volume of imports to be cleared in the coming years, the staff requirements should be determined immediately and a phased reduction in staff effected.*

(b) *Delay in clearance:*

144. The table given below shows the amount of port rent which was paid during the last three years on account of clearance not taking within the time allowed:—

Year	Amount (Rs.)
1962-63	1,67,564
1963-64	2,16,514
1964-65	1,51,732

145. It was stated that the main reasons for the non-clearance of goods in time were (i) delayed receipt of shipping documents, and (ii) receipt of incomplete shipping documents. During the years 1962 to 1965 there were 292 instances of late receipt of shipping documents and 254 major instances of receipt of incomplete shipping documents.

146. There was certain amount of delay in getting the documents ready for despatch from European countries, because in preparing Material Invoice, Packing List, etc., complete measurements of each and every package which had gone on board, had to be given and the preparation of these was undertaken after the ship had sailed with the result that although the sailing time between European Ports and Calcutta was about 4 weeks, the documents were received five or six days after the arrival of the ships.

147. *The Committee feel that the delay in the receipt of shipping documents is not justified. The instructions stated to have been issued to the London and Dusseldorf Offices of the H.S.L. do not appear to have had any effect because delays have continued for the last three years. The persistent failure of the London and Dusseldorf offices to send the documents in time should have been taken seriously by the H.S.L. There is hardly any point in having these offices abroad if they cannot attend to their duties speedily and effectively. The Committee recommend that urgent and vigorous steps should be taken to examine the*

At the time of factual verification, it was stated that the Transport and Shipping Office would have to look after the following items of work also:—

- (i) Durgapur 3.4 million tonnes expansion
- (ii) Increase export target for HSL
- (iii) Handling of import of Bailadella iron ore project through Vizag port
- (iv) Handling of imports for the Bokaro Project.

reasons for the delay and to ensure that in future all the shipping documents are received in time and complete in all respects.

(c) Transport.

148. The table given below shows the volume of materials transported by land during the years 1962 to 1964:

Year	Raw Materials (other than Coal)	Coal	Total
1962	94.34	..	94.34
1963	109.72	47.85	157.57
1964	104.45	47.01	151.46

149. In view of the expansions which are currently in hand and those which are to be taken up during the Fourth Five Year Plan Period, the volume of raw materials, finished products and by-products which would require to be transported is likely to increase.

150. The Committee enquired whether the question of raw materials and finished products that would be transported during the expansion had been estimated. They were informed that the requirements of rail transport for the movement of raw materials and finished products for the expansion programme during the Third Five Year Plan period were considered by the Coordination Committee and these requirements were taken into consideration by the Railways in their Development Programme. In addition, the requirements of the steel plants are also intimated to the Railways in advance on an yearly basis.

151. The Committee hope that these steps would ensure that the required number of wagons would be made available to the steel plants. They suggest that similar estimates, though rough, should be prepared, for the second stage expansion during the Fourth Five Year Plan period, so that the Railways get an idea of the future wagon requirements of the steel plants. Along with the arrangement of railway wagons, other arrangements, such as transshipment and handling facilities, etc. required for the transport of raw materials, finished products, and by-products need to be determined and steps taken to ensure that they would be available.

C. Organisation

Functions
of the
Central

152. In addition to the Transport and Shipping Office at Calcutta, the Plants have their own Transport Departments. Asked about the nature of the functions performed

by the Central Office, vis-a-vis the plants in the matter of Transport and Shipping rail transport the Committee were informed as follows:—

“The Chief Transport and Shipping Officer will be responsible for all transport and shipping matters including the operation and control of Fuleswar and Bhadreswar Jetties, all imports and exports through these jetties as well as the Docks and all Customs matters. In addition he will advice the HSL Projects on all traffic and transportation matters. He will also be the Chief Liaison Officer of the HSL for all transport traffic and movement problems of the Projects which have to be taken up at high level with the Railways, Shipping and Port authorities”.

153. Later, however, during evidence the Chairman, H.S.L. stated that it was not correct to say that the Transport & Shipping Office advised the H.S.L. on all transport matters because the Chief Transport and Shipping Officer had no control over the transport department of Plants.

154. The Committee were informed that the Traffic Departments in the Plants, were responsible for arranging adequate allotment of wagons type-wise and destination-wise from the Railways.* The Committee further understand that in the monthly co-ordination meetings the representatives of the Plants were also called.

155. *It is evident that the Transport and Shipping Office had little to do with the transport of raw materials and finished products of the Plants. The work of the Transport and Shipping office was mainly confined to liaison work and despatching the imported materials to the Plants. The Committee have already suggested cutting down the size of the shipping department. Since, the work relating to despatch can be handled as an extension of clearing work, the Committee feel that there is no need to maintain a separate Central Office for this purpose. It should be possible for a shipping section working as a part of Sales Organisation to look after this work.*

*At the time of factual verification it was stated as follows:

“In respect of raw materials the suppliers of the raw materials and not the Plants who put in the demand for the wagons. It is the duty of the Shipping and Transport Organisation to chase and follow up the allotment of wagons in respect of finished products and in the case of raw materials also to supervise the loading, if necessary.

In the case of by-products, it is the Shipping and Transport Office which first arranges the special type of tank wagons etc. and then advises plants to put in the required indent.”

V

FOREIGN OFFICES

A. London Office

Setting up of office at London.

156. The London Office was originally set up in September, 1956, as part of the High Commission of India, with the principal function of obtaining freight space for the transport of plant and equipment for the Durgapur and Rourkela Plants. The London Baltic Exchange was appointed on a contract basis for attending to shipping and co-ordination work. Later, the work relating to shipment etc. increased as a result of placing the orders on F.O.B. basis instead of C.I.F. as contemplated earlier. With effect from the 1st September, 1961 the office was converted into an independent one under the control of the HSL. It was made responsible for dealing with all matters relating to progressing contracts, shipping, payments and co-ordination under Loans & Credits etc.

157. The expenditure incurred on this office during the last three years is shown below:—

Year	Expenditure	
	in pounds	Rupee equivalent in lakhs
1962-63	16,777	2.18
1963-64	29,293	3.81
1964-65	31,225	4.06

Benefits of setting up the London Office.

158. It has been stated that the setting up of the London Office has resulted in considerable savings to the H.S.L. If the shipping had been entrusted to the India Stores Department, the total amount which would have been debited to the HSL would have been about £ 840,000/- i.e. at the rate of 0.6% of the F.O.B. value charged by India Stores Department. Whereas the cost for operating this organisation (excluding agency fees) during the first five years an expenditure of £ 70,000 only had been incurred. In addition the London Office had been able to obtain freight concessions from the Conference to the tune of £ 500,000.

159. It has been stated that there is room for enlarging the activities of the office, particularly with regard to purchases for Durgapur Steel Plant, Alloy Steels Projects and Bhojudih Coal Washery. There is also scope for expand-

ing the exports to U.K. and the continent by setting up a market research unit in the office. By having an office in London, it will be possible for the H.S.L. to take advantage of rebates which are available if payment is made within 30 days of placement of order.

160. *The HSL did well to set up its own office in London during a period when large consignments of plant and equipment were to be purchased in U.K. and sent to India. There is no doubt that this office will be useful until such time as the plant and equipment meant for second stage expansion of the Durgapur Steel Plant is received in India. If the office is to be continued thereafter, it should be examined whether the benefits would be commensurate with the spending of foreign exchange to the tune of £ 31,1000 approximately per annum.*

Need for continuing the London Office on a long-term basis.

B. Dusseldorf Office

161. During negotiations with the Government of West Germany for expansion of Rourkela, they had pressed for engaging a consultant organisation to co-ordinate the activities of various supplying firms with regard to design, supply of plant and equipment etc. It was agreed that instead of engaging a firm of consultants, a liaison office would be established at Dusseldorf. Accordingly a Liaison Office at Dusseldorf was set up in February, 1964.

162. The staff employed by the Office consists of:—

Chief Liaison Officer	1
Liaison Officers	2
Engineers (Germans)	2
Secretaries/Typists	2.

The expenditure incurred on this office during 1964-65 comes to Rs. 2.38 lakhs.

163. It was stated that the office had proved useful in expediting submission of quotations for imported spare parts and in resolving commercial and financial points of difference by personnel discussion which would have been difficult to resolve by correspondence. It was therefore proposed to continue the office for the future expansion scheme.

164. *The Committee feel that it should be possible for the London Office to take over the work of the Dusseldorf Office without any addition to the staff employed at present. This should be possible, because originally the Office at London was responsible for purchases relating to both the Plants. The decision in this regard and steps to implement it should be taken early.*

Need for merging the offices at London and Dusseldorf.

CONCLUSION

165. As a producer of Steel, Hindustan Steel Ltd. has been making a vital contribution to make to the industrial development of the country. It has, as was expected, grown to be the biggest public sector undertaking from the point of view of capital outlay, scale of operations and manpower employed. In the course of its growth, it had to shoulder the heavy responsibility of managing steel plants with a total production capacity of 3 million tonnes. No other single organisation in India has had to cope with such a scale of operations or so many problems. It was handicapped by inexperience as well as magnitude of operations.

166. After an examination of its working, the overall impression which the Committee have formed is that H.S.L. has acquired the much needed experience and know-how of steel production—and after passing through the formative period, it is now well on the road to further development. The same cannot, however, be said of the organisational side.

167. Various organisational patterns for management were tried from time to time. These affected continuity and stability. The shifting patterns led to a certain lack of co-ordination and co-operation between its Units. It weakened the influence and control of the Head over the organisation. This, though partly due to the inherent defects in the organisational schemes, was also partly due to the attitudes of the plant authorities towards the Head Office.

168. The Committee have a feeling that during the period the Ministry of Iron & Steel have also not been able to exercise enough control on the working of Hindustan Steel Ltd. and the Steel Plants. They could and should have exercised greater vigilance over the working of the Steel Plants e.g. in regard to manpower position, high stock of inventories, production costs, wastages etc.

169. The Committee trust that Government and HSL will now apply themselves assiduously to the task of keeping production at the rated capacity, of restricting capital expenditure, checking wastages, containing inventories, standardising the working force and above all reducing the cost of production, thus leading to the greater efficiency of the plants and the good of the economy.

D. N. TIWARY,
Chairman,

Committee on Public Undertakings.

NEW DELHI;
19th April, 1966

Chaitra 29, 1888 (Saka)

APPENDIX I

(Vide Para 32)

Statement made by the Minister of Steel & Heavy Industries in Parliament on the 20th September, 1963 on the Question of Management of Public Sector Enterprises.

In 18 months since I took office as Minister of Steel and Heavy Industries I have come to certain convictions about the problems of management in the public sector plants under the jurisdiction of my Ministry. I have only respect and admiration for the directors, officers and executives who, have carried out and are now administering the projects of construction, expansion, and operation of these plants. Particularly in steel it has been a notable achievement to put into operation the 3 public sector steel plants at Bhilai, Durgapur, and Rourkela and bring them to a high percentage of capacity. In the process we have learned much about the problem of organisation and management. Last year I made certain changes in the direction of larger delegations of authority to plant general managers. Also I reorganised the Board of Directors of Hindustan Steel to make it more a policy making and less an operating body.

2. I now propose to go further in the direction of these previous actions by way of integrated changes in management practices at Durgapur and at Sindri. So far as the steel plants are concerned, the Board of Directors of Hindustan Steel will decide whether similar changes, with such modifications as may be necessary to suit local conditions, will be introduced in Rourkela and Bhilai also. My objective is that these changes, if they are as successful as I expect them to be, should become management pattern not only in those plants but also in other public sector plants, and, most importantly, in the new fertilizer plants now under construction and in the oncoming additional steel plants.

3. The programme I am announcing today has been under consideration for several months. It has been fully discussed with the Chairman of Hindustan Steel and in recent weeks it has also been the subject of discussion with the senior officials of the ministries principally involved in the proposed changes.

4. In general the proposed changes will place a larger measure of operating authority at the plant level, and will minimize the need of scrutiny by my Ministry and by the headquarters at Hindustan Steel Limited and the Fertilizer

Corporation of India in the day-to-day operations at the plants. To put this another way, the programmes recognize what I believe to be the better practice throughout the industrial world in all multi-plant organizations, namely, to allow a high degree of autonomy in the routines at the plant level, reserving to corporate headquarters the very important functions of broader policy making and staff services (as distinguished from line authority), advisory and consultative in nature.

5. I should say a word about the terms "line" and "staff" in industrial organisation. These terms are borrowed from the military. The term "line" imports the concept of the front line where the action takes place and the commander issues orders. The term "staff" imports the services of planning strategy, providing supplies, maintaining communications and the like. But the staff does not issue orders to the line. Its services are advisory to the commander.

6. So also in industry, the term "line" imports the actual operations in the plants where, for example, the steel and the fertilizers are made. These officers give directions comparable to the orders of military officers—the general managers to departmental heads, they to general foreman, they to foremen, and so on down the line. The staff on the other hand provides services to the line, such as accounting, cost accounting, internal auditing, financial advice, purchasing, advice on personnel practices, law, public relations and the like.

7. I shall now indicate the main changes which I propose to introduce. The order in which I mention them does not indicate an order of importance.

8. *The authority to appoint, promote and discharge persons within the plant organisations at Durgapur and Sindri is being placed at the plant level.* The General Managers will be made responsible for their organisations and they will delegate to the heads of the several units within their organisations the appropriate sub-responsibilities. I am convinced that unless such authority is placed by the Board of Directors in the hands of the General Managers, and unless he in turn places similar authority in his several supervisors down the line, it is not possible for him to hold his supervisors fully responsible for the operation. Of course, in his turn, the General Manager will remain responsible to the Board of Directors and the Chief Executive for the efficient operation of his plant.

9. Steel and fertilizers are produced by machines and men. The men must be organised. Organisation must have a single head to whom the members of the organisation must owe undivided allegiance. To put this another way, if a General Manager or one of his sub-managers

must accept for his organisation, personnel who come to him, are taken away from him or are promoted under him, pursuant to rules, regulations or higher authorities over which he has no control, then I feel that he may not be able to maintain the discipline, or have the undivided loyalty, or exercise the leadership essential to effective production.

10. In the programmes at Durgapur and Sindri, the plant managements will also be given the authority to decide, within the ambit of their budgets, how many senior posts and how many junior posts of each category they will have. They will be free to recognise merit by promoting from one grade to another, or by giving advance increments. It is only where scales of pay for similar types of posts are proposed to be changed that a reference to the Board of Directors will be needed, so as to prevent awkward pressure on the other plants. The plant may also recommend to the Board specialised bonus schemes particularly fitted to their needs and the Board could well have different bonus schemes to provide the right incentive and the right reward for good work in each plant. Plants, even in the same industry, such as steel, have special and sometimes differing requirements with respect to salaries and bonus schemes, and plant managements need flexible authority to devise programmes suited to such specialised requirements. I think there is too much tendency in our public sector economy to prescribe rigid categories for workers and for supervisors and also to set time limits within which promotions cannot be made; so also to give too much emphasis to seniority and not enough to merit for promotions at all levels.

11. *Purchases of replacements and stores have been frequently delayed in the past, with resulting loss of production.* The function of procurement (purchases) is a specialised function, just as specialised as accounting. What is needed is for purchasing Officers to employ their special aptitudes for procurement of the best values at the most favourable prices in the most expeditious manner, and, above all, in timely response to the requirements of uninterrupted production. While General Managers and Purchasing Officers at Durgapur and Sindri will be free to call upon the Finance Officers for advice, when in their opinion it is needed on purchase matters, and I should like to clarify that it is not the intention to side-track the Finance Officers, the responsibility for timely purchase will be squarely placed on the General Managers and their Purchase Department and they will have the authority to over-ride the advice given by the Financial Adviser where they consider it necessary to do so in the interest of the plant.

12. *A new Office should be established to be known as Commercial Manager or Commercial Superintendent, the new post to be filled by a person with appropriate expert-*

ence and qualifications. The Purchase Officers will report to the incumbent of this new post. He will be responsible also for maintaining good liaison between Sales and Production, particularly in the case of Durgapur. I find that in all industry there is frequently a sharply differing outlook as between Sales and Production. A centralised sales management is naturally inclined to accept any and every order obtainable, often without regard to the feasibility or cost of producing a particular item or quantity in the plant. Production men on the other hand are naturally desirous of running the items and quantities which can be run at the lowest cost and with the most efficient results. These differing attitudes need to be reconciled. One of the important functions of the new post of Commercial Manager will be to provide good liaison between Sales and Production which will coordinate the need of Sales to satisfy customers and the need of Production to operate efficiently.

13. *I have concluded that in many of our public sector plants we need to bring more highly specialised and experienced talent to the office of Personnel Manager.* Personnel management is a staff function which must be and remain advisory only to the General Manager and the line supervisors. Contrary to this concept, there is now a tendency for Personnel Managers to consider themselves as administrators of Personnel rules and regulations emanating from some higher authority, often at variance with the judgment of experienced line operators.

14. *As in the case of the Personnel Manager so also I consider it essential to emphasise the staff and service functions of the Plant Financial Adviser and Chief Accounts Officer and eliminate the control aspects of this office.*

15. Historically this officer has often been regarded as having veto powers over the General Manager or has sometimes exercised such powers in practice. I have myself made efforts to correct this situation, having authorised General Managers to overrule financial advice when they disagree. But the traditional prestige of Finance has lingered so tenaciously that a new outlook is needed. An aggressive Financial Adviser can find occasion to intervene in almost anything and even a strong General Managers will in the end take the easy way of submitting to prior financial concurrence with respect to too many of his decisions. The result may be delay out of proportion to any benefits.

16. By these remarks I do not imply that finance control is at present stricter in Durgapur and Sindri. As a matter of fact the relations between General Managers and Finance are good at those plants—a fact which bodes well for the programmes of changes.

17. The idea that public sector management can be so hedged about with checks and balances that mistakes cannot occur is itself mistaken. Effective management will always make interim mistakes. Mistakes are the price of progress. It is the end result which counts.

18. If the managers of our public sector plants are mostly incompetent or corrupt, as sometimes seems to be assumed, and therefore must be hedged in with restrictions, then our public sector enterprises will progress but haltingly in the end at prohibitive costs. Efficient production at tolerable costs depends exclusively upon good management. If India's industrialisation is to progress, then we must trust our public sector projects to managers with full authority and accord to such managers that same trust and confidence which we repose in our leaders in other fields. Since the General Managers remain responsible to their Boards, if they betray that trust or fail for any cause, then they must be promptly removed.

19. Consistent with these observations, at Durgapur and Sindri, the functions of the Financial Adviser and Chief Accounts Officers will be to assist the General Manager with internal plant accounting, cost accounting and financial advice. In fact at these plants we should think in terms of a top plant management, a plant staff cabinet, so to speak, comprised of Chief Plant Accountant (FA & CAO), Commercial Manager and Personnel Manager. But it is clearly understood that the function of the Chief Plant Accountant or Financial Adviser is a staff, not an operating, function. He should be and indeed is no more than one of the trusted lieutenants of the General Manager.

20. *Excessive manpower besets many of our public sector plants.* This is particularly true at Sindri, one of our older enterprises. Unemployment we have, but to load any given plant with excess manpower is not the way to deal with it. In both Steel and Fertilizers our manning per ton of product is several times more than in comparable operations abroad. To contend that Indian conditions require this overmanning is wrong. There are in India today industrial operations in which the manning compares favourably with like operations abroad. Proper manning is a plant management function.

21. *One of the factors in overmanning is excessive, leave, both authorised and unauthorised (absenteeism).* The procedures in regard to these matters will have to be tightened up.

22. I am aware of the fact that in several aspects of these changes, viz., appointments, promotions, wages and leave, there are labour laws and labour unions which must be respected. But I have concluded that our plant general managers and line officers should have more specialised legal advice and counsel on these matters than is now available.

23. Therefore the programme, particularly at Sindri, will involve the addition to staff of a labour lawyer, experienced in advocacy and competent to relieve management of its uncertainties in labour law interpretation and to handle claims and litigations if they should arise. It is possible that this need for specialised legal advice in labour matters may have to be served by a continuing relationship with a general labour law practitioner rather than by a full time staff lawyer.

24. It is not my purpose to prolong this statement with every detail of the management changes which are proposed. Indeed, the contemplated changes will themselves generate others as the programme progresses. But one further aspect of these changes needs special mention. The Auditor General of India under our Companies Act has the authority to designate chartered accountants, giving them such special instructions as he sees fit to carry out the work of auditing our public sector enterprises. He has long since designated an approved list of chartered public accountants. They are presently auditing our public sector enterprises.

25. In addition, the Auditor General has his staff located at the plants who go into matters which Chartered Accountants in this and other countries do not enter into. I would personally have very much preferred that at Durgapur and Sindri, when I am proposing a new system, these auditors could be withdrawn and the audit confined to the examination by Chartered Accountants as in other countries which also have public sector plants. Till, however, this can be done, it is the intention that a separate officer be nominated in each plant to deal with whatever audit queries may be received and to leave the General Manager and his operating staff free to devote their entire time to the efficient running of their units.

26. I should like to close by complimenting the Parliament upon its wisdom in according me a free hand to discharge my responsibilities as Minister of Steel and Heavy Industries. By the same token I must give to management a free hand to run the plants according to those principles of industrial administration which have proved successful all over the industrial world. These principles will, from time to time, call for radical changes in Indian administrative practices. Industrialisation means departure from many old ways—good enough for their time but not adequate for the swift processes of industry. Above all we must remember that industrialisation involves risks. Public funds are a sacred trust—no less—but when government directs them to industrial enterprise they are no more immune from risk than are private funds in private enterprise. We must take the bitter with the sweet, knowing that the net result we may expect from our industrialisation will be more goods and services to meet the needs of all our people.

APPENDIX II

(Vide Para 80)

Functions of the Central Engineering and Design Bureau.

- (i) to prepare detailed project reports for the expansion of the existing steel plants and for setting up new plants;
- (ii) to lay down detailed specifications and prepare lay-out drawings for different units of the plants and design drawings for structurals;
- (iii) to undertake feasibility studies for setting up new steel plants including studies of processes and equipment for the most economical production of end-products and to work out the investment costs and the economics of these projects;
- (iv) to prepare tender documents for the invitation of tenders for plant and machinery, civil engineering work etc.;
- (v) to scrutinise tenders and to make recommendations for the placement of orders;
- (vi) to approve layout drawings and assembly drawings before manufacture of the plant is started by suppliers;
- (vii) to approve detailed construction drawings for foundation and civil engineering work, fabricated steel work and for erection;
- (viii) to prepare working drawings for the installation of services such as electricity, water, gas, steam, compressed air etc., and for foundations and civil engineering work and fabricated steel structurals which are not ordered from other agencies;
- (ix) Overall planning, coordination and supervision of the work of equipment suppliers and other agencies for civil engineering work and erection;

- (x) to ensure that the work is executed in proper sequence according to the time schedule and as planned;
- (xi) to plan and control guarantee tests for the various units of the plant before the plants are certified for acceptance by the management;
- (xii) to certify completeness of the plants and the supply of all essential drawings and documents and to certify final payments etc.

APPENDIX III

Summary of Conclusions/Recommendations

Sl. No.	Reference to para No. in the Report	Summary of Conclusions/Recommendations
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I—HEAD OFFICE

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II

The Committee feel that too frequent changes have been made in the Board of Directors of the Hindustan Steel Ltd. Before the persons, who were placed in charge had settled down and had time to bring to bear their personality and experience on the functioning of the organisation, the system was replaced by a new one wherein the General Managers of the Steel Plants have been given enhanced powers. When a system was found unsuitable and it was decided to change it, it should have been necessary to analyse what were the defects in that system; to what extent it was due to personal relationships and to what extent it was due to the institutional defect and how it was proposed to remove them in the new system. It was necessary to define the management objectives and lay down clearly as to how these objectives were intended to be achieved. The exact division of functions between the Board, the Chairman, the Plant Manager, etc., should have been very clearly defined so as to facilitate its working. This does not appear to have been done. Dissatisfaction in its working was expressed by Chairman, H.S.L. as well as one of the General Managers of the Steel Plants.

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The Committee consider that the functional board will be best suited to H.S.L. The difficulty in adopting such a Board immediately is paucity of men with adequate qualifications and experience of the industry to occupy the posts of Directors. It would not be in the interests of plants to divert the available competent persons from the operations to the managerial side.

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The Committee recommend that efforts should be made to develop a team of experienced and able officers from within H.S.L. and the steel industry in the private sector to manage and direct the affairs of H.S.L.

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4 20 The Committee consider the continued thin attendance at Board meetings as a matter of serious concern. Government were aware of this fact because, it was stated that the proceedings of every Board meeting are sent to them. It is needless to say that the management of the affairs of a Public Undertaking in which more than Rs. 800 crores of public funds are invested, should be entrusted to such persons who will not only evince keen interest and show aptitude but also devote the necessary time and contribute to the successful working of the Undertaking.

The Committee deprecate that such a state of affairs has been allowed to continue. They recommend that such Directors who have not cared to discharge their responsibilities and have not been regularly attending the meetings of the Board should be replaced.

5 21 Another question which was considered by the Committee was whether it was desirable to appoint persons with qualifications in the steel industry as Directors. The Secretary of the Ministry stated that specialised knowledge was not necessary and that persons who had knowledge of business administration and experience in running big factories would be able to provide good management. Since the number of persons who have specialized knowledge of steel industry is very limited, the Committee consider the present arrangement satisfactory. They would, however, refer to their recommendation at para 15 ante wherein a functional Board is envisaged. When that is adopted most of the Directors would be having intimate knowledge of the steel industry and its problems.

6 22 In the present set up where most of the Directors do not possess any direct experience of steel industry, a Director will need some time to get acquainted with the problems facing the Steel Plants before he can usefully contribute towards resolving them. In order to enable him to do so, a minimum tenure should be fixed for Directorship and the Directors should retire by rotation, say, one-third.

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The Committee have discussed the issue of relationship between Chairman and Board of Directors on the one hand and General Managers on the other and control of the former over the latter in subsequent paras. Here the issue is how far the decision to take them as Directors will help the Board in its deliberations and whether it will not be an ideal way of grooming the future Chairman and Directors of H.S.L. The Committee consider that there are advantages in inclusion of General Managers on the Board, but as Government feel that discipline cannot be adequately maintained after this change they would not suggest its adoption at this stage. This would come about when the recommendation in para 15 ante is implemented.

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The Committee understand that there were differences of opinion among the plants and between the Plants and Head Office. Some of the General Managers were not too happy with an apex Organisation and felt that the Plants themselves were big enough to have separate Boards. They would not, therefore, cooperate with the Board. Some of these recriminations had reached serious proportions and were within the knowledge of Government. This is not in the best interests of the Hindustan Steel Limited and of the country. The prime cause for this trouble is the system itself which merely contemplates good personal relationship between the Chairman and the General Managers of the plants for the successful operation of the company. If this personal equation failed, no remedies were envisaged or developed.

The Committee view the present situation with concern. It does not augur well for the future of the Hindustan Steel Limited and should be remedied. Government should immediately consider this matter at the highest level and take quick remedial action. The Committee would, however, like to make a few suggestions which should be kept in view while arriving at a solution to the present Head Office—Plant relationship. The Committee are not opposed to fullest autonomy being given to the plants in the matter of operations. The intention in making these suggestions is that where the interests of the company as a whole are involved, the Chairman or

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the Board of Directors should have an effective say in the matter:—

(1) The powers of the Chairman should be clearly defined. He should have absolute trust and confidence of the Minister and the Secretary of the Ministry. There should be a system of mutual consultation between the Chairman and Government so that it is ensured that the policy of Government is translated into action by the company and that the Chairman has the fullest backing of Government in his dealings with the General Managers. In case of conflicts between the Chairman and the General Managers, the Chairman should have the powers to issue a direction to the General Managers, with the knowledge of Government.

(2) A code of discipline should be chalked out for the different levels. The hierarchy in the administration should be clearly spelled out. Co-operation should not be left to personal equations—it should be codified. Indiscipline should be looked upon seriously by Government and nipped in the bud by suitable remedial action. It should not be merely looked on as an inevitable phenomenon. Indiscipline at the top is bound to permeate to the lower ranks with detrimental effects on the company.

(3) The authority that the Board of Directors or the Chairman will enjoy over the General Managers should be defined in writing. It may also be examined how far it might be useful to make the appointment of the General Managers in consultation with the Chairman.

(4) A clear cut procedure should be laid down in regard to the solution of inter-plant conflicts. The Chairman should be given the powers to take a final decision if necessary after conflicting views have been heard by a permanent or *ad hoc* Committee. His decision should be binding on all.

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The Committee note that the Estimates Committee in their Report on Personnel Policies of Public Undertakings had recommended that since the success of an undertaking depended to a large extent on the direction and guidance provided by the Chairman/Managing Director and it

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took him some time to acquire an intimate knowledge of the problems and programmes of the enterprise, the incumbent of these posts should be selected carefully and for a minimum term say of 5 years. This Committee are not aware of the decision taken by the Government on this recommendation.

The Committee urge that the question of fixing a minimum tenure for top posts such as Chairman, Managing Director, Director, General Manager, etc. should be examined by Government and a decision taken soon. The Committee are aware that in some cases, the continuance of an incumbent may be detrimental to the efficient performance of the Undertaking. In such cases, it should always be possible for Government to remove an unsuccessful incumbent before the expiry of his term.

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The Committee feel that it would be advantageous to restore the previous system where promotions to Deputy Heads of Departments and above were made by a Committee consisting of the Chairman and the three General Managers. In the opinion of the Committee, the Chairman's presence on the Appointment Committee would act as a safeguard against favouritism. The return to the old system in this respect should not be considered a retrograde step as the General Managers will continue to enjoy enhanced powers under the decentralised scheme in respect of other matters.

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The Committee agree that for the present it would suffice if the Controllers of Stores and Purchases meet periodically and keep each other informed. A watch should, however, be kept with a view to arrest trends towards inter-Plant rivalries for the purchase of materials and with a view to adopt corrective measures in time.

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The satisfactory working of the system of inter-communication pre-supposes mutual trust, co-operation and team spirit between the Plants and the Head Office. It is not so much the delegation of powers as the adoption of right attitudes by the persons concerned that really mat-

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ters. The Committee found that the spirit of co-operation was not forthcoming to the desired extent. If decentralisation is to succeed, there should be willingness on the part of the Plants to freely communicate with the Head Office on all important matters. This spirit has to be fostered.

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The Committee recommend that, based on the experience gained by Rourkela Steel Plant, the sub-delegation in other plants should be reviewed and the plant authorities induced to undertake maximum sub-delegation of powers consistent with operational efficiency.

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Judging from the rise in the number of persons employed in the three steel plants—to which references have been made by the Committee in their reports on those plants, the Committee consider that the Head Office has not been able to exercise an effective control over the manpower employed in the steel plants. In the absence of a standard force the Head Office cannot have a reliable yardstick to determine the staff requirements. They, therefore feel that standard force for the three steel plants should be laid down preferably by disinterested persons under the guidance of the Head Office.

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The Committee find that manpower requirements for the steel industry in the Fourth Five Year Plan period have been estimated by the "Committee on Manpower for the expansion of the Steel Industry during the Fourth Plan period". The Committee recommend that based on this and other studies, the norms of work loads and manpower requirements should be determined for each steel plant expeditiously. The surplus staff should be absorbed in the expansion programme.

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The Committee understand that Departmental Selection Committees are constituted for the purpose of recruitment to junior posts in the Steel Plants. In this connection the Committee would invite attention to Para 209* of the 32nd Report of the Estimates Committee—(Third Lok

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Sabha) wherein the setting up of Personnel Commission similar to the Union Public Service Commission was recommended for recruitment to public enterprises.

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The observations of the General Manager, Bhilai Steel Plant, regarding the reasons for not sending any trainees to the Management Training Institute, Ranchi support the earlier findings that there was not the fullest co-operation between the plants and the Head Office. But these observations also prove that there was (i) some duplication of training programmes conducted by the Head Office and the Plants; (ii) the Plants were not consulted as to the availability of the trainees for the courses arranged; and (iii) the content of the courses was not very useful.

The Committee think that the Management Training Institute at Ranchi has a useful purpose to serve, in addition to such Institutes at the plants. That TISCO and Burma Shell have such central institutes lends support to this view. But so far as the contents of the courses and the timings are concerned, they need re-examination.

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It might not be feasible for the steel Plants where heavy investments have to be made on expansions to attain 1:2 Equity Debt ratio. But the ratio of 1:1 which is the accepted ratio for all public undertakings should have been achieved by now. The Committee recommend that the future investment should take this aspect into consideration.

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The forecasts for the years 1964-65 and 1965-66 were off the mark. Since the reasons for the lower or adverse working results were of a continuing nature, it was clear that the actual profits likely to be earned during the years 1966-67 to 1968-69 would be much less than the forecasts. To enable Government and Parliament to have a clear picture about the working of H.S.L., a revised realistic forecast should be drawn up taking into consideration the extra investment likely to be made, the production likely to result from expansion and other relevant factors.

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The Committee hope that the Committee on cost structure set up by Government to go into the cost structure of the Steel Industry will examine the question steel prices vis-a-vis capital block of HSL.

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The Chairman, H.S.L. informed the Committee that the works costs of production of steel of Hindustan Steel Limited were very well comparable to international works costs. But higher cost of raw materials due to escalation, excise duty, higher depreciation etc. led to higher selling prices. This aspect was also stated to be under the consideration of the Committee on Cost Structure referred to earlier. It was stated that if higher differential prices were granted to H.S.L. Plants on account of their being new, the financial picture would be altered. It is not understood as to how the raw material costs were higher in India than abroad. Anyway, the suggestion made by H.S.L. must have been put forward to Government who would examine its feasibility.

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The Committee feel that utilisation by H.S.L. of the depreciation provision as working capital is not correct. The working capital requirements should have been determined and arrangements made to obtain the necessary funds from the Bank. As working capital either in the shape of cash credit facility or loan from Government would be available only on payment of interest, there would be a natural restraint on its use. The Committee desire that Government should issue instructions in the matter to all the public undertakings.

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The Mahtab Committee was also expected to investigate into the increase in the cost of raw materials. The Committee hope a sizeable reduction in cost of production will be achieved.

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The Committee consider that the institution of a body of Chief metallurgists of the Plants and another governing body consisting of the General Managers of the three plants can at best only secure co-ordination of individual programmes undertaken by the laboratories in each plant, but not initiate and direct a comprehensive programme of research in various aspects of steel

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technology, which is so vital for the steel industry. The Committee feel that establishment of a Central Research Institute would be advantageous.

II—CENTRAL ENGINEERING & DESIGN BUREAU

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The importance of utilising Indian talent to the maximum extent for meeting the technical requirements of Public Sector industries needs no emphasis. Since the Central Engineering and Design Bureau, by successfully preparing the Detailed Project Reports for the expansion of the Rourkela and Durgapur Steel Plants, has established its competence for the preparation of such Detailed Project Reports, Government should entrust the preparation of the Detailed Project Reports for future public sector Steel Plants to it.

The Committee are glad to learn that the Bureau was associated in the study made by the Anglo-American consortium for the fifth public sector Steel Plant. The experience thus gained should be fully utilised in future planning.

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The Committee are not convinced by the reasons advanced for not entrusting the work for preparation of the Detailed Project Report for the expansion of the Bhilai Steel Plant to the Central Engineering and Design Bureau. When an expert organisation had been built by the H.S.L., which is competent to undertake such work, there was no justification in spending foreign exchange to the tune of Rs. 70 lakhs by entrusting it to an outside authority. It was known to the Government in advance that the Bhilai Steel Plant was to be expanded; if the Bureau had been forewarned, it could have recruited and trained the necessary staff to undertake this work. The Bhilai Design Cell was also in existence and was familiar with the design and layout of the Plant. With the assistance of this Cell, it should have been possible for the Bureau to undertake this work. This might be done when preparation of the Detailed Project Report for the second stage expansion is taken up.

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- 27 88 It is regrettable that even after a decade of its existence, the H.S.L. had not been able to so equip the Bureau as to be able to undertake all the work that is offered to it or which could be procured if it had the necessary complement. The Committee feel that urgent attention should be paid to the strengthening of the Bureau and widening its scope of activities, so that it is made into a first class consulting agency for all designing and engineering work for the steel industry. Government's plans should also be made known to the Bureau well in advance so as to enable it to arrange and train sufficient staff for the task. The present state of affairs of the Bureau not being able to arrange requisite staff because Government had not given advance indication of work that they intended entrusting to it and Government on their part not entrusting the work to the Bureau because its hands were full, should be ended.
- 28 89 The Committee find that the Bureau has undertaken some consultancy work on behalf of the N.C.D.C. While such attempts deserve encouragement, the Committee hope that it is not being done at the cost of essential work of the Steel Plants. The Bureau's primary aim should be to render an efficient and competent consultancy service for the steel industry both in the public and private sectors.
- 29 90 The Bureau has been entrusted with the work of preparing a special Report regarding the Coke Oven unit at the Rourkela Steel Plant with a view to ensure adequate quality and quantity of Coke Oven gas to the Fertilizer Plant. The Committee welcome this work and desire that the Bureau should increasingly be assigned such roles.
- 30 95 The Committee are surprised that although the intention from the very beginning has been to unite the Central Engineering Design Bureau and Bhilai Design Cell, steps towards integration have not been taken. On the other hand, the factors forcing the two to remain apart have been allowed to grow. Till 1961, the Bhilai Design Cell was allowed to remain separate because it
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was in the midst of one million tonne stage. Before further expansion to the 2.5 million tonne stage was entrusted to the Cell, it could have been merged with the Central Engineering and Design Bureau. This was, however, not done. Again, there seems to be presently no serious effort to merge, because the Bhilai Design Cell has taken up the work of 2.5 million tonne expansion. In 1964, when the matter was reviewed by the Chairman, H.S.L., the difficulties of integration and conflicts about seniorities stood in the way. This is an untenable reason, as this position would continue to exist as long as the two organisations are separate. In fact, the longer they are kept apart the problem will be further aggravated as more men would be involved because of further recruitment and promotions in the two organisations. It is not an unsurmountable difficulty and several organisations faced with this problem in much larger dimensions, e.g. the Life Insurance Corporation, Air Corporations etc. have solved it successfully.

The Central Engineering and Design Bureau and the Bhilai Design Cell have been developed separately. The Bureau had acquired the know-how from the German and the British Designers while the Bhilai Design Cell had been nurtured in the Russian Technology. According to the Chairman, H.S.L., both had 'tended to go in parallel lines'. When both the institutions are under the H.S.L. and do the same type of work, this inclination to work in water-tight compartments has not been appreciated by the Committee and specially when head of the Gipromez had even stated that designing work should be completely centralised. There is no doubt, it will be to the benefit of the H.S.L. and ultimately that of the country to pool the skill and experiences of the two institutions. It would result in some economy also. The difficulties about integration and conflict of seniorities which the H.S.L. seems reluctant to deal with, will always be there whenever a merger of these two parallel establishments is attempted. In the Committee's opinion this two-fold system ought to be unified at the first convenient opportunity.

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III. SALES OFFICE

- 32 104 After considering the advantages and disadvantages in centralising sales work, the Committee feel that the balance of advantages lies in favour of keeping the sales work centralised particularly so long as the three Steel Plants are under one management. The working of the Sales Office, however, needs improvement.
- 33 107 The difficulties on account of having the Sales Office between the Plant and the consumers could be removed if the Sales Office had qualified technical experts to negotiate with customers. It is felt that specialists with previous experience in the plants and with a good knowledge of production technology would be better salesmen. If the present personnel of the Sale Office do not have practical and basic knowledge of steel production they should be given training in the Plants.
- 34 110 As regards discussing sales matters at the meetings of the General Managers, the Committee note that a decision to hold regular meetings of the General Managers was taken on the 31st August, 1964. It is seen that from that date to the end of 1965 the General Managers met four times only. With such infrequent meetings and sales being only one of the topics which they must have discussed, its problems could not have received much attention from them. This, anyway, is not the same thing as securing an active association of the plants in the working of the Sales Office for a fuller appreciation of each other's problems. Being the parties who are called upon to meet the expenditure of the Sales Office, the Plants should have some voice in formulating the sales policy. The Committee suggest that H.S.L. might examine in consultation with the Plants and the Sales Office the best manner in which this could be achieved.
- 35 114 The Committee agree that in the initial stages it might not be possible to get commensurate return on development expenditure. But they do not think that there was need for incurring so much expenditure on promotion of sales. The

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		percentage of increase in selling expenses should not be allowed to exceed the percentage of increase in gross sales. A close watch should be kept to see that the percentage of selling expenses to gross sales does not rise disproportionately.
36	116	It will be seen that the percentage of establishment expenses of Sales Office to gross sales has increased from 0.04 in 1961-62 to 0.14 in 1964-65. The Committee trust that the Sales Office would keep the tendency towards rise in its establishment expenses under check.
37	121	The Committee urge that a systematic study should be initiated to determine the pattern of demand for steel products, category-wise and section-wise.
38	122	The Market Research Unit of the Sales Office should also be geared up to the task of assessing demand for steel products. A programme of work should be drawn up and the plants should be kept in touch with the work done by the unit, so that they may benefit from its studies. Hitherto this unit has been mostly engaging itself in collection and collation of statistics and it has been associated with only three studies.
39	125	While the plants need not be asked to produce fast moving items which will make their running uneconomic, at the same time the needs of the market cannot be ignored. They suggest that more attention should be paid to diversification of production. Government should examine the feasibility of having more mills of different size ranges in the newer steel plants as also in the expansion programmes of the existing mills.
40	129	The Committee recommend that a study should be made of the demand and supply position of various items of steel and to release more items of steel for export, particularly those in respect of which export potential exists. Hot rolled sheets in coils, chequered plates and pig iron are cases in point.

41 131 The Committee recommend that Government should take steps to remove the difficulties faced by the H.S.L. in fulfilling its export target. The Committee have in mind difficulties such as the non-announcement of subsidy in time, and the non-availability of shipping space. As for the H.S.L., more vigorous steps are necessary to increase exports because the present expectation of 70,000 tonnes is only 74 per cent of the original target. The inability to offer flat products is likely to affect the exports in future also. The feasibility of making flat products available, at least to a limited extent, to purchasers abroad should be examined. Their further production in the newer plants might also be considered.

42 137 It is rather early to determine whether the stockyards set up by the Sales Office have achieved the objective for which they were set up, particularly the objective regarding checking the rise in prices, as substantial capital expenditure has been incurred on the establishment of these stockyards, the Committee recommend that their performance should be reviewed after some time with a view to see how far the objectives for their establishment have been realized.

IV. TRANSPORT AND SHIPPING OFFICE

43 143 The Committee recommend that keeping in view the volume of imports to be cleared in the coming years, the staff requirements of shipping department should be determined immediately and a phased reduction in staff effected.

44 147 The Committee feel that the delay in the receipt of shipping documents is not justified. The instructions stated to have been issued to the London and Dusseldorf Offices of the H.S.L. do not appear to have had any effect because delays have continued for the last three years. The persistent failure of the London and Dusseldorf offices to send the documents in time should have been taken seriously by the H.S.L. There is hardly any point in having these offices abroad if they cannot attend to their duties speedily and effectively. The Committee recommend that urgent and vigorous steps should be taken to examine the reasons for the delay and to ensure that in future all the shipping documents are received in time and complete in all respects.

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The Committee hope that the steps taken to give advance information to the Railways would ensure that the required number of wagons would be made available to the steel plants. They suggest that similar estimates, though rough, should be prepared, for the second stage expansion during the Fourth Five Year Plan period, so that the Railways get an idea of the future wagon requirements of the steel plants. Along with the arrangement of railway wagons, other arrangements, such as transshipment and handling facilities, etc. required for the transport of raw materials, finished products, and by-products need to be determined and steps taken to ensure that they would be available.

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It is evident that the Transport & Shipping Office had little to do with the transport of raw materials and finished products of the Plants. The work of the Transport & Shipping office was mainly confined to liaison work and despatching the imported materials to the Plants. The Committee have already suggested cutting down the size of the shipping department. Since the work relating to despatch can be handled as an extension of clearing work, the Committee feel that there is no need to maintain a separate Central Office for this purpose. It should be possible for a shipping section working as a part of the Sales Organisation to look after this work.

V. FOREIGN OFFICES

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The H.S.L. did well to set up its own office in London during a period when large consignments of plant and equipment were to be purchased in U.K. and sent to India. There is no doubt that this office will be useful until such time as the plant and equipment meant for second stage expansion of the Durgapur Steel Plant is received in India. If the office is to be continued thereafter, it should be examined whether the benefits would be commensurate with the spending of foreign exchange to the tune of £31,000 approximately per annum.

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The Committee feel that it should be possible for the London Office to take over the work of the Dusseldorf Office without any addition to the staff employed at present. This should be possi-

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ble, because originally the Office at London was responsible for purchases relating to both the Plants. The decision in this regard and steps to implement it should be taken early.

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After an examination of its working, the overall impression which the Committee have formed is that H.S.L. has acquired the much needed experience and know-how of steel production—and after passing through the formative period, it is now well on the road to further development. The same cannot, however, be said of the organizational side.

Various organisational patterns for Management were tried from time to time. These affected continuity and stability. The shifting patterns led to a certain lack of co-ordination and co-operation between its Units. It weakened the influence and control of the Head over the organisation. This, though partly due to the inherent defects in the organisational schemes, was also partly due to the attitudes of the plant authorities towards the Head Office.

The Committee have a feeling that during the period the Ministry of Iron and Steel have also not been able to exercise enough control on the working of Hindustan Steel Ltd. and the Steel Plants. They could and should have exercised greater vigilance over the working of the Steel Plants e.g. in regard to man-power position, high stock of inventories, production costs, wastages etc.

The Committee trust that Government and H.S.L. will now apply themselves assiduously to the task of keeping production at the rated capacity, of restricting capital expenditure, checking wastages, containing inventories, standardising the working force and above all reducing the cost of production, thus leading to the greater efficiency of the plants and the good of the economy.
