

**NINETY-SEVENTH REPORT  
COMMITTEE ON PUBLIC  
UNDERTAKINGS  
(1983-84)**

**(SEVENTH LOK SABHA)**

**PRODUCTIVITY IN PUBLIC UNDERTAKINGS  
(MINISTRY OF FINANCE—BUREAU OF PUBLIC  
ENTERPRISES)**

*Presented to Lok Sabha and  
laid in Rajya Sabha on 30 April, 1984*



**LOK SABHA SECRETARIAT  
NEW DELHI**

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COMMITTEE ON PUBLIC UNDERTAKINGS  
(1983-84)

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\*Ceased to be a Member consequent on his retirement from Rajya Sabha on 2 April, 1984.

\*\*Ceased to be a Member consequent on his retirement from Rajya Sabha on 9 April, 1984.

(iv)

**SECRETARIAT**

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3. **Shri G. S. Bhasin—*Senior Financial Committee Officer***

**STUDY GROUP II ON NATIONAL THERMAL POWER CORPORATION LTD., CENTRAL COAL WASHERIES ORGANISATION AND PRODUCTIVITY IN PUBLIC UNDERTAKINGS**

1. Shri Stayendra Narain Sinha—*Convener*
2. Shri Pratap Bhanu Sharma—*Alternate Convener*
3. Shri Harish Kumar Gangwar
4. Shri Ramnath Dubey
5. Shri M.S. Ramachandran

## INTRODUCTION

1. the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf present this Ninety-seventh Report on Productivity in Public Undertakings.

2. Evidence of the representatives of the Ministry of Finance (Bureau of Public Enterprises) was taken by the Committee on 7 January, 1984. Evidence of the representatives of National Productivity Council and of the representatives of Standing Conference of Public Enterprises was also taken by the Committee on 14 September and 1 October, 1983 respectively.

3. The Committee considered and adopted the Report at their sitting held on 27 April, 1984.

4. The Committee wish to express their thanks to the Ministry of Finance (Bureau of Public Enterprises) for placing before them the material and information which they desired in connection with the examination of the subject. They wish to thank in particular the representatives of the Ministry of Finance (Bureau of Public Enterprises) who gave evidence and placed their considered views before the Committee.

5. The Committee also wish to thank the representatives of Standing Conference of Public Enterprises and the representatives of National Productivity Council for furnishing memoranda, giving evidence and making valuable suggestions.

6. The Committee also wish to thank the Public Enterprises Centre for continuing Education and Institute of Public Enterprises for furnishing memoranda and making valuable suggestions.

NEW DELHI;

MADHUSUDAN VAIRALE,

April 29, 1984  
Vaisakha 9, 1906 (Saka).

*Chairman,*  
*Committee on Public Undertakings.*

## CHAPTER I

### PRODUCTIVITY MANAGEMENT

The Central Public Undertakings play a pivotal role in the economy of the country functioning as they do in key areas of industries such as coal, steel, minerals and metals, heavy equipment, power etc. Out of the total investment of Rs. 30,039 crores in the Central Public Undertakings as on 31 March, 1983, about 80% of the investment is accounted for by the undertakings engaged in production. The optimum utilisation of productive assets in these undertakings is of crucial importance to the economy in view of the nature of their activities and the bulky investment in them. The quality of performance of these undertakings has a chain reaction not only on other public undertakings and on the private sector, particularly, small scale industries but on the economy as a whole. Because of this strategic importance there is a greater need for increasing productivity in the public undertakings. The concept of 'productivity' and the need for productivity improvement received an impetus and an added thrust when the year 1982 was declared as the "Productivity Year". It is in this context, the Committee went into the examination of productivity in mining, manufacturing and other production enterprises.

1.2 According to the Bureau of Public Enterprises (BPE) Survey, the number of enterprises producing goods were 136 as on 31st March, 1982 and 141 as on 31st March, 1983. However, BPE informed the Committee that undertakings engaged in mining, manufacturing and production of goods as on 31.3.1982 were only 96. The data used in this report mostly relate to these 96 enterprises. Wherever, the information is quoted from BPE Survey, the data relate to the number of undertakings indicated therein.

1.3 Conceptually, productivity aims at achieving more and more output from the given input, whether it is employment of men, use of machines or utilisation of other resources, thereby establishing linkage between output and input. The ratio between output and input denotes productivity. Optimum utilisation of the resources is basic to this concept.

#### A. Productivity Planning

1.4 Corporate Plan is a premier instrument for total management improvement and the management, in turn, has to focus attention on productivity which is an important area of economy of the enterprise. A representative of



Standing Conference of Public Enterprises (SCOPE) urged during evidence before the Committee that the concept of Corporate Planning and the necessity for it in terms of long and medium term objectives should be clearly defined so that the channel for increasing productivity is chalked out. The Committee noted that BPE had issued guidelines in 1974 regarding drawing up of Corporate Plans by public undertakings. The Committee asked during the oral evidence of BPE, in what manner the Corporate Plan seeks to achieve growth in productivity and whether there are any guidelines of the BPE in this regard especially in the context of productivity year, 1982. The Director General, BPE stated in reply :

“Corporate planning involves two segments, one is investment side and the other is improvement side. On the improvement side, one of the areas to be taken care of is the productivity area.”

1.5 A representative of SCOPE stated in evidence that management should focus attention on two major areas in Corporate Plan, viz. technological improvement which is stated to be possible only over a long period and improvement in labour productivity which is possible through major improvements in work methods, cost reduction etc.

1.6 In a Memorandum furnished to the Committee, the Institute of Public Enterprises (IPE) pointed out that only about 70 out of 200 Central public undertakings have developed their Corporate Plans specifying their objectives, directives, directions and course of action. According to BPE Survey, the total number of operating enterprises as on 31.3.1983 were 196. The Committee enquired whether the progress in adoption of corporate planning in public enterprises was reviewed at any time, after the issue of guidelines in 1974 and also wanted to know how nearly two-third of the undertakings did not have any corporate plan. In reply the Director General of BPE stated that in 1977 a Survey was conducted and it was noticed that 70 enterprises had already evolved Corporate planning process in their organisation. He added :

“However, it came to our notice that even in 1977-78, when we called for this information, that many of the public enterprises were not even aware as to what is really meant by corporate planning. Some of them sent their Articles of Association and Memorandum and imagined that this was the corporate planning...Presumably, this sort of ignorance must be continuing even now.”

1.7 With a view to highlighting the importance of corporate planning and to clarify the issues connected therewith, a National Seminar on Corporate Planning was organised by the BPE in January, 1978.

1.8 Narrating the recent developments in regard to the role of BPE in corporate planning, the witness stated :

“The Fazal Committee which had gone into various aspects of the role of BPE had recommended that the Bureau should assist and scrutinise the preparation of the corporate plans of various public sector enterprises in order to achieve coordination at the sectoral level. This recommendation, however, was not accepted by the Committee of Secretaries. They say that this is primarily the responsibility of the public enterprises and, if at all, anybody could exercise a check and guide the corporate planning, it must be the administrative Ministry.....The final decision is yet to be taken.”

1.9 This view is stated to have been taken by the Committee of Secretaries in spite of the fact that the BPE issued guidelines in 1974 which stated that the Corporate Plans of the undertakings should be formally ratified by Administrative Ministry after obtaining the concurrence of the Ministry of Finance (BPE) and the Planning Commission.

1.10 Pointing out that BPE is continuing its efforts the DG, BPE explained :

“The managements of public enterprises were asked to take steps to prepare Action Plans emanating from the corporate Planning exercise. The BPE addressed the public enterprises in April, 1981 for formulating concrete Action Plans for the next two years in various spheres of their activities and furnish relevant details. The information received from the public enterprises has been compiled in the Bureau and the document has been circulated in April, 1982, giving details of Action Plans for the year 1982-83. This document was again updated and circulated recently covering 1983-84.”

1.11 The Action Plan is stated to have been based on information received from 135 undertakings. About the quality of corporate plans in these 135 undertakings, the DG, BPE stated :

“Since I have reason to believe that many of them are still ignorant of the process of corporate planning, these 135 public enterprises may not really measure up to the requirements of having a Corporate Plan. But they have prepared some sort of a Plan. We have to check what sort of a Plan it is.”

1.12 In this connection, the DG, BPE held out an assurance :

“We can certainly do one more round of stock-taking to find out how many have really drawn up the Corporate Plans in the correct sense of the term.”

1.13 During 1982-83, BPI is stated to have sponsored three courses for executive development in public undertakings with corporate planning as a specific subject.

1.14 In a written reply furnished to the Committee, the National Productivity Council (NPC) emphasised that the basic attitude and practice of productivity techniques at all levels in the organisation should ensure a positive climate for productivity enhancement. NPC also stressed the need for training and development of existing and new employees in sharpening their skills and orienting their attitudes to productivity. According to Public Enterprises Centre for Continuing Education (PECCE) there is inevitably a necessity for immediate building of training and consultancy efforts at the level of the enterprise.

1.15 From the information made available to the Committee, it is observed that only 62 production enterprises have in house training facilities with emphasis on productivity and 36 enterprises are imparting training in multitrades and job combination.

1.16 SCOPE stated that the most important step that the managements of Public Enterprises should take relates to establishment of a well knit training unit. Enquired whether SCOPE would advocate common training institutions for Public Undertakings in the related fields financed by the Public Undertakings concerned rather than duplicating the efforts by undertakings individually, the Committee were informed in a written reply as follows :

“SCOPE feels that training at various levels is an important and essential aspect of the development process. In the case of large units in the Public Sector, independent and exclusive training facilities are necessary for providing optimum availability and utilisation. Hence, it may not be advisable to have common training institutions for large Public Undertakings.

However, in respect of smaller units in the Public Sector it may be helpful and economical to have common training institutions to cater to the training needs of undertakings in related fields, in order to avoid duplication of efforts and facilities.”

1.17 It has been mentioned that the Chief Executives' Conference held in 1983 recommended that corporate training plans covering training needs during

the next 5-10 years should be drawn up by the public enterprises to meet the training requirements of both management and non-management categories of employees. BPE is reported to have asked the public enterprises, as well as the concerned administrative Ministries, to take action on this recommendation and draw up such corporate training plans. BPE has decided to collect the information about training facilities available with the different institutions of the public undertakings so that those small and medium enterprises who do not have such facilities could be requested to make use of such facilities available with the other public undertakings.

1.18 PECCE suggested that to take up vigorous implementation of the integrated productivity management function, institutions like NPC, National Labour Institute, PECCE could take up the new role.

1.19 Enquired whether NPC would suggest any role for it or for any other organisation in order to promote productivity climate in public undertakings. NPC stated that it could undertake the following tasks :

- (i) Conduct training programmes/seminars for attitudinal and skill development in productivity areas ;
- (ii) Training in personnel to man productivity departments;
- (iii) Develop and assist in installing integrated productivity management system;
- (iv) Software development for measurement and monitoring of enterprise level productivity.

1.20 NPC has been extending its consultancy services in the area of energy, maintenance, manpower assessment, job evaluation, merit-rating and wage fixation.

## **B. Productivity Cell**

1.21 SCOPE emphasised in its Memorandum submitted to the Committee that each public enterprise must develop a productivity culture and make sustained efforts to promote and strengthen Management Services or Industrial Engineering Departments by adequate staffing and training. It stated that immediate steps should be taken to institutionalise productivity management as a core activity. A representative of SCOPE stressed in evidence that in his opinion there should be a separate productivity cell in all enterprises to institutionalise the productivity management.

1.22 From the analysis of information furnished by individual undertakings the Committee observed that only 38 out of 96 production enterprises have a separate Industrial Engineering (IE) organisation and 40 enterprises have a unit to look after the productivity aspects. The Committee enquired how a large number of undertakings did not have a separate cell to look after productivity aspects. The DG, BPE explained during evidence :

*technical*

"In certain types of industries, like the process industry, it may not be really necessary to have a separate productivity cell, because generally it forms part of the production planning or technical services wing. But the productivity cell has greater relevance in the case of units like heavy engineering or light engineering units. In those cases, a majority of them have a productivity cell or the industrial engineering department....."

The witness stated further :

"As far back as on the 29th January, 1971, the Bureau had issued guidelines on the activities which would fall within the realm of these industrial engineering or productivity or management services. These guidelines really emphasised that depending upon the activities, the structuring of the Department would have to be decided by the management. We feel that the managements themselves are the best judges to decide whether the productivity functions should be carried out under one integrated cell or department or these are to be distributed under different functional units in the same organisation."

1.23 The Committee were informed by BPE that a Survey carried out in 1975 indicated four different types of difficulties which were faced by the management of public enterprises as regards IE/Management Services (MS)/Productivity Services (PS) Departments. These were (i) under staffing; (ii) inadequacy of formal training to the staff; (iii) insufficient penetration of the IE approach and productivity consciousness among the executive and staff of other functional departments; and (iv) difficulty in attracting qualified industrial engineers or qualified IE practitioners to positions in the department.

1.24 Enquired whether the constraints mentioned above were not mostly internal to the management of public undertakings, a representative of SCOPE said in evidence :

"Constraints mentioned at (i), (ii) and (iv) are partly within the control of the management and partly due to factors outside the control of the management. Constraint (iii) is wholly within the purview of the management. The most important factor in retaining highly qualified and trained

productivity specialist is the question of remuneration in the public sector *vis-a-vis* private sector.”

1.25 Informing the Committee that under staffing is in the highly specialised field, the witness pointed out that under staffing is due to the reason that management does not attach proper importance to the subject.

1.26 Asked what follow up action was taken by BPE on the basis of the findings of the survey mentioned above, the DG, BPE stated in evidence :

“The Survey’s findings were discussed in a Seminar on Higher Productivity in Public Sector Production Enterprises organised by the Bureau in September, 1975 in collaboration with SCOPE. The conclusions arrived at in the Seminar were also circulated to all the public sector manufacturing enterprises and the participants. The entire report itself was brought out as a priced publication by the SCOPE.”

1.27 Asked about the present position of productivity departments in public undertakings, the DG, BPE said :

“The Bureau did not undertake any fresh survey about the difficulties faced by the managements of these public enterprises as regards the engineering or productivity services of the department.”

1.28 NPC made a suggestion for creation of high level position at Director’s level for management of productivity in each public sector undertaking assigning responsibility for periodic productivity evaluation and audit which should be considered at policy making level. Public Enterprises Centre for Continuing Education (PECCE) informed the Committee that productivity aspect as far as known is not being coordinated and directed by a high level executive and wherever senior people have been given this task, the experience has been rewarding. NPC indicated three undertakings, *viz.* BHEL, HMT and SAIL which have a position for productivity activities at senior levels. According to NPC, the basic objective of Director (Productivity) on the Board should be to develop a climate of Productivity in decision making at the Broad level. Further, Director (Productivity) should assist in evolving and implementing Productivity Programmes in the organisation. Another important function to be assigned could be to develop long-term productivity plans and integrate the same with the strategic plans in the organisation.

1.29 A representative of SCOPE considered that the Corporate cell (for productivity) should be headed by an officer senior enough who enjoys respect within and outside the organisation. However, another representative of SCOPE

pointed out that productivity improvements are best achieved by decentralisation and done at the level at which productivity results are shown.

1.30 Enquired whether there is any separate cell in BPE to look after productivity issues in public undertakings, the DG, BPE stated :

“The BPE is organised on functional line and the production, productivity and other allied matters are dealt with by the Adviser (Production). This division has on its strength, sufficient technical experts. We have got experts from different engineering disciplines in this Division of the Bureau.”

### C. Productivity Norms

1.31 Lack of standards and productivity norms for major inputs and a scientific system of productivity measurement at enterprise and industry level and virtually non-existent inter-firm comparison in most of the industry sectors reportedly make monitoring rather weak if not ineffective at the Government level. The Committee wanted to know from BPE what are the indices evolved to measure productivity and in what manner these could be refined further. In reply BPE stated that as a overall measurement, the best index for productivity available is the percentage of capacity utilisation. While dilating the points, the DG, BPE explained during evidence :

“The capacity utilisation consists of a number of factors. Unless the productivity of individual factors are controlled and improved, the overall capacity utilisation will not improve. Where there are multiple products, the capacity utilisation with reference to each major products could also be considered as a reasonably good index.

The productivity measurement, therefore, consists of individual input factors like productivity of labour, capital, machine etc...In 1975 the BPE, in consultation with the Ministries and even an expert, had evolved a format for reporting productivity for the purpose of reflecting important management ratios. These productivity reporting formats are used for reporting the performance of the public sector enterprises. The returns are received periodically from the enterprises, monthly, quarterly, half-yearly and annually under the management information system in regard to information on capacity, actual production, percentage of utilisation, comparative performance in the corresponding period of the previous year, return on capital employed, machine hour utilisation, reasons for loss of production, broken up again into various causes such as how much is due to shortage of power, breakdown of equipment, shortag of raw material, labour problem etc.....”

1.32 NPC stated in a note furnished after evidence that there is need to develop integrated productivity norm structure for the industry, its component units, respective departments as well as work centres.

1.33 Enquired whether BPE is giving any attention to the need for developing integrated productivity norm-structure for each group of public undertakings, the DG, BPE, stated in evidence (January, 1984) :

“I may mention that BPE had evolved 40 performance criteria models covering cognate groups of enterprises. This is a recent development. This has been brought out very recently and just about a month or 1½ months back, this has already been circulated to the administrative ministries. This was done in consultation with administrative ministries. The criteria *inter alia* cover a number of performance parameters to enable evaluation of productivity.”

1.34 The performance criteria have been finalised by 22 Administrative Ministries in consultation with Public Enterprises under their control and BPE representatives. In respect of 6 Administrative Ministries it is yet to be finalised. Some Ministries have adopted an uniform sectoral approach for the enterprises under their Ministry while others have finalised specific performance criteria for each enterprise under them. Thus in all a total of 40 such “sets of performance criteria” have been prepared. Most of the above performance criteria specify the critical parameters against which corporate management would be laying down quarterly and annual targets. Each of these parameters represent a specific performance indicator like capacity utilisation, inventory levels, progress of ancillarisation, project commissioning schedule and financial performance, etc.

1.35 Even though, all the Ministries are expected to finalise a targetted rate of return on capital employed to be earned by various public enterprises, most of the Ministries have reportedly not declared the target of rate of return to be earned on a long term basis.

1.36 The Committee desired BPE to furnish information in respect of various public undertakings regarding value added (at constant prices) per man-month and average and incremental capital output ratios with corresponding figures of similar industries in private sector. BPE, however, informed the Committee that because of lack of any reliable data available with the enterprises as regards similar industries in the private sector or abroad, the enterprises have not given comparative details of such comparison in their reports.

1.37 The Committee desired to know whether the BPE has made any inter-firm comparison of productivity to evolve realistic norms on the basis of



what is obtaining in private sector in India and similar enterprises abroad. Explaining the difficulties in this regard, the DG, BPE stated :

“Inter-firm comparison is a difficult exercise because it has to be basically on ‘like to like basis’. Vintage of the unit may not be the same. Technological sophistication, use of feed stock may be different. Marketability of the product depends upon the end-use and pricing mechanism.”

1.38 The Committee drew the attention of the Director-General to the reply given by BPE to the Committee’s recommendation (at Sl. No. 21) contained in their 49th Report (1981-82) where it was stated that when in depth studies are undertaken such comparisons are attempted through special efforts. In reply, the DG, BPE said during evidence “Same in-depth studies have been conducted but inter-firm comparisons as such have not been made.” Explaining the position in this regard, a representative of BPE stated :

“The inference is that when in an expert committee conducts an in-depth study of individual public enterprises, with a view to finding what is wrong, they also try to do inter-firm comparison. It does not necessarily mean that the inter-firm comparison is made with the private sector. It could mean an inter-firm comparison with another similar concern in the public sector. This is a kind of inter-firm comparison which the Fazal Committee had done. It is not as if an indepth study is on the inter-firm comparison.”

1.39 The DG, BPE mentioned that only after the broad parameters are established, such inter-firm comparisons would help in drawing any meaningful conclusions. He informed the Committee :

“Very recently, I had asked one of my officers to selectively take up some inter-firm comparisons also by calling for information from the private sector and try to do some in-depth study.”

1.40 According to IPE, labour productivity norms which can be fixed in terms of output per man could be used to make inter-firm comparisons in the case of steel, coal or mining industry.<sup>2</sup>

1.41 PECCE stated that in defining the capital utilisation, norms may have to be developed for both ‘fixed’ as well as ‘working’ capital in each case. In the latter situation drawing limits for overdrafts could be related to standards of cash/working capital management. A representative of SCOPE stated that it may not be possible to have capital utilisation norms for ‘fixed’ as well as ‘working’ capital. He, however, indicated :

“The results achieved in similar industries (both public and private sector) and also internationally, could be broad indicators when comparisons are made. We know which companies have performed well. Similar comparisons can be taken as standard; even though you may have different comparisons year after year, what is the best performance can be taken. I am sure that sort of a thing is possible. Guidelines can be what companies have achieved individually at the highest level.”

1.42 NPC informed the Committee that productivity Boards have been set up for 7 industries for Industrial Machinery; Machine Tools; Paper Pulp and Allied Industries; Cement; Leather and Learher Goods; Power Generation; Transmission and Distribution Equipment and Automobile and Ancillary Industries. The proposed functions of these boards as informed by NPC are stated to be as follows :

- (a) Preparing plans incorporating technology, manpower, energy and marketing for achieving higher productivity and integrating the same with the national economic plans;
- (b) Identifying productivity constraints and advising the government, industry and trade unions on the measures to be taken to overcome the bottlenecks;
- (c) Monitoring implementation of productivity plans evaluating the actual results achieved and identifying the specific factors which have helped or hindered in achieving higher productivity;
- (d) Advising the government on policy issues such as establishing industry wise norms for major inputs/factors of production, linking wages with productivity, instituting productivity awards for higher performance etc. and
- (e) Establishing a standard data base for evaluating productivity performance.

1.43 NPC made a suggestion that these productivity boards should be entrusted with the task of developing productivity norms and designing computerised systems of productivity measurement, inter-firm comparison and providing necessary feed back to the industry and the Government about the strength and weaknesses of individual units as well as industry as a whole.

1.44 The Committee received a suggestion from PECCE for establishment of research organisations for developing basic data and also appointment of task

forces to build norms/standards to cover operating situations in Indian Industry or other organised sector.

1.45 Achievement of productivity growth in Public Undertakings is of crucial importance to the economy of the country. The public undertakings function in key areas of the industrial sector. Out of the total investment of the order of Rs. 30,000 crores in the Central Public Undertakings at present, about 80% of the investment is accounted for by the production enterprises. The need for productivity improvement in public undertakings received an impetus during the year 1982 when it was declared the "Productivity Year". It is in this context, the Committee went into the examination of productivity performance in Public Undertakings. Their examination has revealed that though there was improvement since 1982, there is substantial scope for further improvement. The Committee have dealt with in this report the areas which require better attention by the Public undertakings and their administrative Ministries/Departments as well as Bureau of Public Enterprises.

1.46 Corporate planning is an essential Management tool *inter alia*, for improved productivity. A survey conducted by BPE in 1977 revealed that only 70 public enterprises had evolved their Corporate Plans. Some undertakings were not even aware as to what is really meant by Corporate Planning. The Committee are surprised to hear from the Director General, BPE that this sort of ignorance must be continuing even now. The Committee are glad to know that BPE organised a National Seminar in January, 1978 and sponsored 3 courses during 1982-83 for executive development with Corporate Planning as a specific subject. Although the responsibility mainly rests with the administrative Ministries to ensure that 'Corporate Plan' is evolved in all undertakings under their control, the Committee feel that BPE should play an active role as recommended by the Fazal Committee by assisting in the preparation and scrutinising the Corporate Plans at least until all the undertakings are on their own able to draw up, in a systematic and regular manner, the Plans with a special thrust on productivity. The Committee hope that as assured by its DG, the BPE will undertake a survey to ascertain the present position in this respect in public undertakings and take suitable action under intimation to the Committee.

1.47 There is need for training and development of existing and new employees in sharpening their skills and orienting their attitudes to productivity as urged by the various non-official organisations. The Committee stress that all undertakings should draw up Corporate training Plans expeditiously as recommended by the Chief Executive Conference and integrate them with the overall Corporate Plans of the enterprises for effective implementation. The Committee

note that 62 out of 96 production enterprises have in-house training facilities. The Committee desire that the proposed collection and dissemination of information regarding availability of training facilities among undertakings should be done early so that the small undertakings which do not have the facilities of in-house training may be avall of them soon. The services of institutions like National Productivity Council, National Labour Institute and Public Enterprises Centre for Continuing Education should also be effectively utilised by the undertakings in promoting basic attitude and skills in regard to productivity techniques at all levels in the organisations of Public Undertakings.

1.48 The Committee find that only 40 out of 96 production enterprises have a separate unit to look after productivity aspects. Productivity activities in certain enterprises are reportedly looked after by the production Planning or Technical Services Departments. A survey conducted by BPE in 1975 revealed the difficulties faced by the management of public undertakings in regard to productivity management. Admittedly, these difficulties are mostly within the control of the management and are mainly due to the fact that the management does not give due importance to the subject. Development of productivity culture is of prime importance and the basic requirement for promotion of productivity in an undertaking. Efforts in this direction are lacking in many undertakings. The Committee, therefore, recommend that there should be a separate productivity cell in each enterprise to institutionalise productivity management as a core activity and this should be headed by an officer fairly at higher level and in big undertakings even by a Director.

1.49 There is need for developing integrated productivity norms on the basis of inter-firm comparisons of productivity. Although, performance criteria models have been finalised recently by 22 administrative Ministries for performance evaluation of the undertakings under their control, it appears that no attempt has been made to evolve realistic norms for productivity to measure the performance thereagainst. The DG, BPE informed the Committee that BPE is taking up some inter-firm comparisons selectively and will attempt indepth studies. The Committee would urge that productivity norms should be evolved for all factors of production for each public undertaking in consultation with NPC, Productivity Board and BPE.

1.50 The Committee recommend that apart from the productivity Boards already set up for 7 industries such Boards should be set up for each of the other major industries such as Steel, Coal, Minerals and Metals, Chemicals and Fertilizers, Petroleum and Textiles.

1.51 Further, the performance criteria models should be finalised early for the undertakings under the remaining 6 Ministries also. These should include productivity norms to be evolved for more effective and meaningful monitoring and review of the performance for appropriate action for improvement.

## CHAPTER II

### PRODUCTIVITY OF CAPITAL

#### A. Capital output ratio and return on capital employed :

In measuring productivity, capital output ratio is one of the important indices. The Committee wanted the production enterprises to indicate the average and the incremental capital-output ratio based on constant prices. The Committee also wanted the BPE to analyse these ratios furnished by the Undertakings. The Committee were, however, informed by the BPE that no analysis of the capital-output ratio of these undertakings could be attempted as the undertakings have used different bases in working out the ratio and that the ratios are also not at constant prices in all the cases. The DG, BPE indicated during evidence that the management ratios in BPE's Public Enterprise Survey include capital output ratios in terms of value of production and capital employed. It, however, appears that these are also not based on constant prices.

2.2 The percentage of gross profit to capital employed of the public sector enterprises as a whole for the last six years as observed from BPE Survey, is as indicated below :—

1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	Half year ending 30 September, 1983-84
7.58	7.69	7.60	7.79	12.10	13.05	10.40 (Provisional)

2.3 The percentage of gross profit to capital employed in public undertakings during the 10 years period 1971-81 works out on an average to 7.13%. The percentage, has however, increased to 12.1 in 1981-82 and further to 13.05 in 1982-83, the highest recorded by public sector enterprises so far. The percentage has, however, fallen to 10.40 during the first half of the current year.

2.4 IPE stated in its memorandum that the return on capital employed in private sector was 20% during 1980-81 and 1981-82. Profit after tax percentage on net worth had reportedly been 4.55% in the public sector and 14.8% in private sector during 1981-82. According to IPE these indicate that the capital productivity is somewhat low in the case of public sector.

2.5 The ratio of net turnover to capital employed is an important indicator of the efficiency of utilisation of funds of any enterprise. The ratios of net turnover to capital employed in the manufacturing groups of public enterprises during the four year period 1979-83, shown in BPE Surveys, were as given below :

Percentage of net turnover to capital employed				
	1979-80	1980-81	1981-82	1982-83
1. Steel	91.7	92.2	93.41	96.43
2. Minerals and Metals	47.9	45.4	37.41	38.89
3. Coal	89.9	105.5	91.43	90.52
4. Power	—	—	—	13.03
5. Petroleum	378.3	331.2	415.81	412.21
6. Chemicals, Fertilizers and Pharmaceuticals	52.6	53.9	76.31	80.91
7. Heavy Engineering	95.8	104.8	114.25	120.98
8. Medium and Light Engineering	109.3	98.2	118.53	107.46
9. Transportation Equipment	72.1	89.9	86.95	82.79
10. Consumer Goods	117.3	140.1	113.36	61.55
11. Agro-based Products	154.6	133.0	160.18	152.26
12. Textiles	148.4	160.9	179.08	112.43
Total	130.9	137.1	158.88	157.40

2.6 Although the overall ratio of net turnover to capital employed in public undertakings registered a notable increase during 1980-81 and 1981-82, it slightly declined from 158.88% in 1981-82 to 157.49% in 1982-83. The fall in 1982-83 was due to small turnover of National Thermal Power Corporation Ltd. and National Hydro-electric Power Corporation Ltd. which became operational during 1982-83. Being in the initial stages of operation, their net turnover was only Rs. 56.18 crores against their capital employed of Rs. 431 crores. It has been reported that if power sector is excluded, the ratio would work out to 161.04% in 1982-83.

2.7 It is, however, observed that the ratio has drastically declined by about 50% in consumer goods and significantly in Textiles undertakings during 1982-83. The ratio also registered a decline in Transport Equipment, Medium and light engineering, coal, petroleum sectors and agro-based industries. It has been mentioned that the textile and medium and light engineering sectors, to a large extent, consist of many taken-over sick units. In addition, the prevailing recession in the textile industry and strike in Bombay based textile mills coupled with drastic power cuts have also reportedly contributed to a great extent to the lower turn-over in the textile sector. In the case of petroleum and coal the decline has been partly due to the additional capitalisation during the year in these sectors contributing to less than proportionate increase in turnover mainly on account of new units commissioned during the year which could be expected to achieve full production in the course of the coming years only.

2.8 The Committee observed that the ratio of net turnover to capital employed was as low as 37.4% and 38.8% respectively during 1981-82 and 1982-83 in Minerals and Metals Group, 76.3% and 80.9% in Chemicals/Fertilizer and Pharmaceuticals and less than 100% in Steel, Coal and Transport equipment. The Committee wanted to know the reasons for such a low ratio of net turnover to capital employed especially in Minerals and Metals Group and Chemical/Fertilizers and Pharmaceuticals Group of public undertakings. A representative of SCOPE explained in evidence :

“The return on capital outturn ratio depends on the type of industry, the manner of employment of capital and the manner of running the enterprise. All the industries in minerals, metals, chemicals and fertilizers and pharmaceuticals groups are capital-intensive in nature. These companies would give optimal return on capital ratios if they ensure capacity utilisation as per designed capacity. The reasons for not attaining the designed capacity are different in different industries but lack of power and other inputs are some of the factors that have contributed towards this decline.”

2.9 It is noted from the BPE Survey that 5 Units in Mineral and Metals Group and 8 Units in Fertilizers Group operated at less than 50% capacity during 1982-83. Supplementing the oral reply, SCOPE stated in a note furnished after evidence :

“Owing to heavy investments in certain types of industries covering a large gestation period there is bound to be lower capital out-put ratio in the initial years of investment. Hence the capital out-put ratio cannot reflect correctly the actual position. In respect of the Coal and Minerals and Metals groups the whole average has been pulled down by one or two



units. It may be pointed out that in the Minerals and Metals Group the average for the entire group has been drastically affected owing to the low ratio of 1.72% in respect of turnover to Capital employed in the year 1981-82 in the case of Kudremukh Iron Ore Company and 27.74% in the case of Bharat Aluminium Company."

2.10 It is observed from BPE Survey that the ratio in respect of these two companies has slightly improved to 3.94% and 39.77% respectively during 1982-83.

2.11 Informing that the ratio for steel sector will go down in 1983-84, a representative of SCOPE mentioned the reasons therefor :

"We have commissioned a number of units in the four million tonne projects. In Steel, it will take us a couple of years before the investment results start coming up. Initially, in regard to investment, we went upto 110%. Then it has come down to 85% even in the best of circumstances. These investment results will start immediately coming up this year. At the same time, this year, we have to face the marketing problems. We have had to reorientate our production. Sector-wise there has been a surplus of steel in the country."

2.12 It is noticed that SAIL made a profit of Rs. 39.11 crores in 1981-82. It, however, incurred a loss of Rs. 105.77 crores in 1982-83. The loss went upto Rs. 256.76 crores (provisional) during the first six months of the current year (1983-84).

2.13 Pointing out that the policy of balanced regional development has adverse impact on Productivity, a representative of SCOPE explained :

"If we take a conscious decision at the Government or plant level that in view of certain considerations there is need to improve the backward area, the cost of that plant is bound to be higher as compared to, let us say, the plant which is to be located elsewhere.....If as a result of Government policy you locate plant at a particular place where the investment or the capital impact is about 25% or 40% higher. It would be necessary sometimes to run into additional costs of Rs. 80 crores or 100 crores.....The capital output-ratio is bound to be adverse in those circumstances."

2.14 Making a suggestion that the element of additionality should be

separated as in done in U.K., the witness stated :

“Government and the project report should take into account this element of additionality which is being incurred as a result of deliberate Government decision to promote a backward area. This additionality in the capital-output ratio must be identified, isolated and taken out. This is being done in the nationalised industries in U.K....My submission would be, here also, if we have to fairly measure productivity in terms of capital-output ratio that additionality must be taken out separately or [that additionality could come in the form of subsidy. Again, I am referring to the nationalised industries in U.K. where the additionality is subsidised. Alternatively, you can downgrade or upgrade the productivity ratio.”

Another representative of SCOPE pointed out :

“Once it is indicated in the project report that certain infrastructure is coming from certain other agencies and the plant is built on that basis, subsequently if there is some failure in providing the infrastructure, then the problem starts.”

The witness made a plea in this connection :

“In the project report, we take note of what is likely to happen and that project report should be given a sanctity and those promises made should be fulfilled...When we are in the backward area, note should be taken while comparisons are made. What steps can be made to help us should be taken well in time.”

2.15 In reply to the recommendation in Para 6 (Part II) of the 49th Report of this Committee (1981-82), the BPE had promised to undertake an indepth study of capital-output ratio of public undertakings selectively. Enquired whether any such study has been done, the DG, BPE said in evidence

“Government is certainly giving serious consideration to the problem of under-utilisation of capacity in certain public sector enterprises. Some of the Ministries have already constituted in depth study Committee to go into the problems of low capacity utilization. There are about twenty such enterprises.”

2.16 It is commonly believed that public enterprises are over-capitalised. According to NPC, the following factors are responsible for over capitalisation of public sector projects :

- (i) Delays in project completion adding to cost escalation.
- (ii) Public Sector Units being mainly in the core and infrastructure sectors of the economy and being large sized, need high capital investment.

- (iii) Effects of foreign collaboration.
- (iv) Type of technology used.
- (v) Excess employment.
- (vi) Public sector undertakings widely dispersed (including backward and under-developed areas) need greater investment in infrastructural development.
- (vii) Commitment to social responsibility requiring investment in housing projects, better social amenities, education as well as ensuring pollution control measures.
- (viii) Relatively greater investment in research and development and staff functions.

2.17 The NPC suggested the following remedial measures for improving capital productivity in the public sector :

- (i) Good understanding and practice of project management techniques for timely completion of projects by field executives and funding agencies.
- (ii) Adequate attention to the selection of right technology from receiving countries.
- (iii) Improving capacity utilisation to minimise capital cost contribution to goods and services produced.

## B. Capacity Utilisation

2.18 One of the indices used in productivity management to trace performance improvement or deterioration is the ratio of actual production to the installed capacity. The installed capacity of an enterprise is based on a given set of productive factors, all operating at optimum levels and as such, the level of capacity utilisation is a good barometer to gauge the performance of the enterprise. The picture of capacity utilisation in the total number of 96 production enterprises during 1979-82 is reported to be as indicated in the table below :

Year	above 90%	75 to 90%	50 to 75%	35 to 50%	Below 35%	Information not available
1979-80	19	16	26	7	10	18
1980-81	17	19	27	13	3	12
1981-82	27	18	27	9	4	11

2.19 The Committee observed that the number of undertakings having capacity utilisation higher than 75% has increased from 36 in 1980-81 to 45 during the productivity year. Asked whether this improvement is wholly attributable to productivity drive, the DG, BPE said :

“The factors were sustained drive for productivity, which started not in 1982, but it started earlier in 1980 itself. We developed a productivity consciousness among the public sector undertakings. This is not a one-time exercise, but it is a continuing exercise and this will have to be continued for all times to come. In addition to this, there were some other reasons also, like availability of industrial infrastructure in the country, improvement in industrial climate, improved monitoring and removal of constraints, and above all the growth in the economy itself. As regards the number of enterprises targetted to achieve capacity utilisation higher than 75% for 1982-83, the target was 52 enterprises but the actual achievement was 55 enterprises which had exceeded 75 per cent.”

2.20 The Committee observed that the number of undertakings having capacity utilisation less than 75% was as many as 40 during the productivity year besides 11 undertakings in respect of which information was not available. The causes of low capacity utilisation are attributed to power shortages, industrial relations problems, equipment failures, inadequacy of demand, shortage of raw materials and Management shortcomings. Some of the steps taken by Government to upgrade the levels of utilisation are stated to be monitoring by Cabinet Committee on Infrastructural Facilities, special indepth studies by the Expert Committee on Public Enterprises, periodical review and follow up action by Co-ordination Committee and investment in balancing facilities and captive power plants. The Committee enquired whether the BPE was satisfied with the adequacy of these measures to improve capacity utilisation in public undertakings to the desired level and if not, what further measures are contemplated to upgrade the levels of utilisation.

The DG, BPE replied :

“How can there be adequacy in this because this is a continuous exercise. Various measures have already been taken such as investment in balancing facilities, captive power plants, a number of diversification schemes monitoring by the Cabinet Committee and infrastructural facilities regarding coal, power, steel, railways and also indepth studies. In pursuance of the recommendations of the Chief Executives' Conference in last April the Bureau had suggested to the Administrative Ministries to constitute a study

team to implement the recommendations. This is a continuous exercise and we hope it will lead to greater productivity.”

2.21 From the information furnished by SCOPE, the Committee observed that power shortage caused a loss of Rs. 140 crores during 1981-82 in 3 steel plants and 2 fertilizer units alone. According to BPE Survey during 1982-83, the production loss on account of interruption due to power shortage in 2 steel plants and 2 fertilizer units went up to Rs. 258 crores. These units are Rourkela Steel Plants—Rs. 147 crores, Durgapur Steel Plant—Rs. 23.41 crores, Fertilizer Corporation of India—Rs. 54.25 crores and Hindustan Fertilizers Ltd.—33.25 crores.

2.22 As one of the major causes for low level of capacity utilisation in many undertakings is inadequate power supply, the Committee asked what is Government's thinking on solving this chronic problem of power shortage. The DG, BPE said in evidence :

“The Department of Power is seized of the problem and they are having plans to overcome the shortage in coming years. Progress in power generation has been going on. It has increased by 10.1 per cent in 1981-82 and registered a further increase of 7% in 1982-83. This, however, is not adequate as it still has left a gap of 10.8 per cent in 1981-82 and about 9.2 per cent in 1982-83. The actual power generation in the first six months of this year has registered an improvement of about 3 per cent as compared to the corresponding period of the previous year ; yet the first six months shortage was as high as 12.5 per cent as per the programme. They have their own constraints both in regard to timely completion of projects as well as in achieving better plant load factor by the State Electricity Boards. An Experts Committee has actually made a recommendation that there could be captive power plants where the investment is at least Rs. 200 crores and more. This has been examined by a group of Secretaries; and they were generally inclined to endorse this suggestion keeping in view regional availability of power and on merits of each proposal. What would happen if the power is not made available from the captive power plants, what will be the minimum investment, how much is going to be the generating cost based on which a balance will have to be struck. But if there are justifiable reasons that captive power generation is still preferable, may be in extremely backward areas, but as a deliberate government policy, they want to have there public sector undertakings so that the area gets developed, in such cases, power generation on the captive basis may be warranted.”

### C. Inventories

2.23 Efficient management of inventories is another important area of performance improvement of Public Enterprises. Inventory represents blocked up capital. Any reduction in it enable the enterprises to improve their cash flow. It is observed from the BPE survey that total value of inventories shown as number of days output of products and services of public undertakings has been gradually brought down from 183 days from the year ending 31.3.1969 to 101 days for the year ending 31.3.1983. The inventories in the following production enterprises were, however, observed to be much higher and stood at over 365 days of production :

	Inventory in terms of No. of days of Production
	(as on 31.3.1983)
1. Heavy Engineering Corpn.	394
2. Tungabhadra Steel Products Ltd.	1160
3. Lagan Jute Machinery Co. Ltd.	420
4. Bharat Electronics Ltd.	370
5. Bharat Pumps & Compressors Ltd.	392
6. Goa Antibiotics & Pharmaceuticals Ltd.	385
7. Mishra Dhatu Nigam Std.	502
8. Hindustan Aeronautics Ltd.	578
9. Mazagon Dock Ltd.	500
10. Garden Reach Shipbuilders & Engineers Ltd.	537
11. Hindustan Shipyard Ltd.	779
12. Goa Shipyard	632
13. Cochin Shipyard	565
14. Hindustan Paper Corporation	776

2.24 It is further observed that apart from 14 production enterprises mentioned above there were 27 other enterprises where inventory in terms of number of days of production was between 200 and 365 at the end of 1982-83

2.25 Explaining the reasons for high level of inventories, a representative of SCOPE said :

“Inventory level depends upon the type of industry, type of environment in which the industry is functioning and also the manner in which the Industry is being managed. If a particular product has a short manufacturing cycle and an assured market, the inventory level will come down. But the main reasons for higher level of inventory are uncertain supplies from special suppliers and other sources like lack of transportation and movement facilities and internal resources and then bad management inside the factory.”

2.26 The witness, however, conceded that “undoubtedly bad management also plays quite a considerable role in this.”

The witness pointed out further :

“Basically all long cycle items and high gestation period and capital intensive items have been transferred to public sector, because private sector could not take up that manufacture. Private sector has got items which are relatively small cycle manufacturing items, relatively assured and quick market. In the very nature of the industry two types of inventory levels have been different.”

2.27 When the Committee put forward a suggestion for creation of joint post of Director (Marketing and Materials) even in medium-sized undertakings in order to give adequate and effective emphasis on inventory reduction, a representative of SCOPE stated :

“In a number of industries, such a post exists, where the functions of materials management is also seconded to the man dealing with marketing. But so many other issues occupy so much of his time that the real focus on inventory is not given. Secondly, they do not set up an organisationally strong group which is exclusively concerned with analysing the components of the inventory. We carried out recently some experiments. We found that the results were not satisfactory. We called a 2-day seminar to analyse why nothing is happening. Then we found that we had no mechanism which will say how much time is taken in transit, and how it can be avoided. It led to very good results.”

2.28 Referring to Chemical sector, a representative of SCOPE said :

“I do concede there is a need for better marketing management. There

is also need for combining marketing and material management, so that inventory is taken care of in input Materials, spare parts and finished products. We are very seriously considering to create a group or a very high level post to combine these functions."

2.29 In order to further bring down the inventory level in public undertakings, the following suggestions were made by SCOPE :

1. Adequate and affective emphasis should be placed on inventory reduction as a matter of priority and to achieve this objective top management must provide organisational support for close monitoring of inventory levels and material management.
2. A systematic campaign to advise and educate all concerned with materials management, about the need for keeping down the inventory level.
3. Long range contracts with suppliers with a built in mechanism for flexible adjustment in respect of purchases should be encouraged.

2.30 An Expert Committee on Public Enterprises submitted a Report in April, 1982 on General Issues which include the Material and Maintenance Management. Some of the recommendations of the Committee, concerning Material and Maintenance Management are in brief as under :

- (a) Creation of an obsolescence reserve, scientific determination of surplus and its speedy disposal and tight control on inventories through various performance indices.
- (b) There is need for integrated approach to Material Management.
- (c) Every unit should developed its own norms of performance, indicase relating to materials management through an appropriate Management Information System for the unit and should report the performance to the top management.
- (d) Procurement and use of material through sticker budgetary control.
- (e) Steps should be taken for standardising the terminology used in materials management for the purpose of uniformity and for comparative analysis.
- (f) Assistance of experienced consultants especially in more complex areas of inventory management could be taken.



- (g) There should be materials management cadre in large undertakings such as coal, fertilizers, chemicals, steel sectors etc. The material management personal should have formal induction and training programme. They should have opportunities to take up senior positions in the organisation as are available to persons in other departments.
- (h) Competent Cadre should be built Maintenance Engineers and Maintenance Managers.

2.31 The above recommendations which were examined at the level of Group of Secretaries in December, 1983 are now being processed for consideration at the level of the Cabinet.

#### D. Cost Effectiveness

2.32 In order to maximise production with the available resources it is necessary to have effective cost control and value analysis. However, it was observed that out of 96 production enterprises, only 21 undertakings had introduced standard costing system and only 33 had a system of value analysis. BPE is stated to have issued guidelines in this regard as early as in 1968. Pointing out that guidelines on standard costing emphasise the need for effective cost control and introduction of standard costs in various manufacturing and process enterprises, the DG, BPE explained the pre-requisites for introduction of standard costing as follows :

“The introduction of standard costing has to go hand-in-hand with job evaluation, work measurement and laying down norms for various activities. As such, the introduction of the standard costing is interlinked with the development of industrial engineering and production control systems in an organisation. The various precise parameters and input requirements, should be standardised. Some of the pre-requisites for developing standard cost is the assumed availability of inputs. Infrastructural requirements must be available easily.”

2.33 Informing that the various uncertainties associated with the production environment have made the task of standard costing more and more difficult for public sector undertakings, the witness said :

“This explains the reasons for the concept of standard costing not having taken roots amongst our industries. In the alternative, most of the public sector undertakings have budgetted cost or the targeted cost derived on the basis of the past performance and the future expectations. For the purpose

of evaluating the present performance vis-a-vis the past performance, the follow-up action taken is primarily in enthrusting the enterprise to work out norms for cost, based on standard activities and giving such normative cost for performance evaluation."

2.34 Highlighting the efforts made BPE in addition to issue of guidelines in regard to value analysis, the DG, BPE said :

"A separate booklet was also published and circulated to all those concerned to promote value analysis amongst the public enterprises. On the materials management for instance the BPE has been conducting indepth studies into the material management of several representative enterprises and they have made further recommendations for the improvement of the same. BPE Inplant Training Programme on materials management has devoted special attention to value analysis techniques.

A national Seminar was also held in 1982. This brought out the studies on value analysis in several organisations and the benefits derived from its introduction. This enabled the organisations involved to adopt the approach of value analysis. Specific recommendations of this Seminar were circulated to other Undertakings which did not participate in the Seminar."

2.35 Asked what follow-up action was taken to see that these important systems are introduced in all the public enterprises, the witness said :

"Our attempts has been that after issuance of general guidelines, to shift towards more specific and to involve the operative level of management directly in these things. There is the need to make them aware through seminars ; discussions and the like because a lot of people know of a new concept but, they would not know what is the methodology."

2.36 An opinion has been held that the system of administered prices has an adverse impact on productivity allowing for extravagant use of capital. It has been pointed out that the practice in fixing controlled prices was to allow for costs in full and to provide for a certain rate of return on the capital employed. As a result, there is no incentive to reduce costs, as lower costs would not mean more profits to them, but would only lower profits.

2.37 Informing that there is no incentive for cost effectiveness, the DG, NPC, stated in evidence :

“There is a great responsibility cast on the public sector undertakings that they must think in terms of cost effectiveness, quality improvement and expand the markets.....If we become cost-extravagant whatever market we have now will also shrink. The international market gets restricted. The domestic markets get eroded.”

2.38 Pointing out that there has been no deliberate attempt to contain the cost, the witness said :

“We conducted a cost analysis and found that in the last three years the cost has been going up. There has been no deliberate attempts to contain the cost.”

He pointed out further :

“We do not have any norms as such for any particular industry. We have the norms for particular plants. For example, TISCO has one norm. Rourkela has another norm, Bhilai has a third norm.”

2.39 In NPC's view pricing on the basis of cost-plus constituted an impediment to productivity performance. Taking note of the views stated above the Committee wanted to know whether it would not be possible to devise an incentive scheme within the administered price mechanism for cost reduction in public undertakings. Pointing out in this regard that there is built-in motivation in administered prices, the DG, BPE, explained :

“If we take the administered price evolved by the Government, it is not based on this particular method of cost plus. The administered prices are determined taking into account the cost of the more efficient unit which account for a large percentage of the total output, the optimum norms of consumption of raw material and energy as well as other inputs. A system of retention prices for different producers on the basis of cost of production on the one hand and uniform sale price on the other, is evolved so that there is uniform price for the consumers. Price adjustments are also allowed for changes in the cost of major components after a review. The scheme of administered prices has itself a sort of handle for the better and better and for the not well performing units to perform better. Administered prices are based on capacity utilisation and capital and other inputs on the basis of fixed norms and the enterprises can improve their productivity otherwise the enterprises will have to pay penalty for their inefficiency by way of lower capacity utilization or by consuming more raw material than what is warranted.”

2.40 It is observed from the information furnished to the Committee that 69 out of 96 production enterprises have some arrangement for feed back on consumer's reaction to its products and 93 have organisational arrangement to ensure quality control.

### E. Research and Development

2.41 According to NPC a liberal R&D policy alongwith assured rewards for hold efforts in developing local know-how would go a long way towards increased productivity in public undertakings. NPC stated that an institutional arrangement is required to identify products and processes on a priority basis where indigenous know-how could be developed. PECCE, is, however, of the opinion that the R&D should focus more 'on the process' than the new products. Further, according to PECCE more emphasis is necessary on effective technology transfers than basic research. Pointing out that it may be useful to provide suitable incentives for making additional investment for R&D, NPC suggested that this may be favourably considered by the Government.

2.42 An opinion has been held that Indian industry is stated to be prone to minimum risk-taking and therefore, the risks involved in investing in R and D are not in harmony with the general ethos of industrial culture in the country. Enquired about BPE's assessment of need for providing suitable incentives to attract additional investment in R&D, the DG, BPE said in evidence :

"Public enterprises are a mixed bag in which there is adequate awareness of the importance of R&D, but since their total number is over 200, I cannot say that all of them have the same amount of awareness. In some, this awareness is not to the desired degree. In the public sector undertakings, as they are, the intitial R&D efforts have necessarily to be directed towards achieving objectives of import substitutions, optimising production capacity, removal of bottlenecks, or deterioration in the quality of inputs etc. In the case of many public undertakings, probably new technologies on our own have not yet developed. As far as R&D expenditure as a percentage of sales is concerned, this is furnished in Vol. 3 of the annual survey. This should, however, be viewed in the context of the Government policy where centralised R&D organisations/ have been built up by the Council of Scientific and Industrial Research. Some of the Ministries as also some educational institutions are also doing it."

2.43 It is observed from the information furnished to the Committee that 62 out of 96 production enterprises have a R&D unit.

2.44 According to SCOPE the R&D Policy of Public Enterprises can be improved in the areas of adaptation of new technology by introducing in-house R&D, especially in areas like product development, product diversification and technology upgradation. Other key areas are stated to be research on energy conservation measures and continuous modernisation to remain competitive. According to SCOPE the areas where R&D work can result in higher productivity would be to improve the quality and consumption of inputs as also in finding out suitable substitutes where the raw material is scarce or imported and in reducing process time.

2.45 Enquired whether Government did not think that R&D activities in public undertakings have not adequately covered many areas which have been direct bearing on productivity, the DG, BPE said :

“The specific R&D programmes of the in-house R&D efforts of the units in public enterprises depend on the priorities envisaged by the public enterprises themselves, and the priority they want to give. That is their primary concern, with reference to the available resources on hand. As reported in the Survey for 1981-82, SAIL and Hindustan Photo Films have taken up projects specifically to increase productivity. These are the two examples but technology innovation and upgradation invariably has impact on improving productivity.”

The Committee put forward a suggestion that an Apex Body or Sectoral bodies should be created to look after R&D requirements of all public undertakings, to evolve common approach to basic problems of all undertakings in this regard and provide necessary facilities to collect information and data vital in the spheres of activities of various undertakings and act as a feeder bank to all undertakings. Reacting favourably to the suggestion SCOPE stated in a written reply :

“It would be a good idea to set up an Apex Body for each sector of Industry in Public Sector to look after R&D requirements of the undertakings with a view to assist them to updating their technology base and also overcome obsolescence. Such an institution can perform the following tasks :

- (a) collect, classify and disseminate technological data relating to R&D.
- (b) Study the issues involved in choice of appropriate technology.

- (c) Inter-firm transfer of technology.
- (d) Adaptation and assimilation of imported technology.

The Apex Centre can help the industrial units by way of circulating a monthly bulletin to disseminate important information on various aspects of R&D in India and abroad. In other words it can serve as a Data Bank."

2.47 In this connection, the DG, BPE, however, stated in evidence as follows :

"The common approach cannot be universalised and a study itself is the most desirable thing. This approach is possible only where there are large number of units in the same sector. Otherwise it has to be done in an isolated fashion. There are common institutions for instance for research in machine tools, there is a Central Machine Tools Institute. For automobiles we have got the Automobiles Research Association of India, then there is Cement Research Institute, Central Mining Research Institutes and others. Apart from this, there are also research Institute for metal forming and welding. Other centralised units exist where there are several units which can take up these projects. There is an existing agency in the Department of Science and Technology and CSTR and adequate information is there available about better linkages in the public and private sectors."

2.48 The Committee are glad to note that the ratios of net turnover to capital employed and gross profit to capital employed the two important indicators of capital productivity, made a significant improvement during the productivity year. The net turnover to capital employed increased from 131% in 1979-80 to 159% in 1981-82. The gross profit to capital employed which worked out to 7.13% on an average during the 10 year period 1971-81 has notably increased to 12.1% in 1981-82 and further to 13.05% in 1982-82. The net turnover to capital employed, however, slightly declined to 157.5% during 1982-83 due to low turnover of power corporations in the initial stages of operation. An analysis of individual groups of industries shows that this ratio has drastically declined by about 50% in consumer goods industries during 1982-83. This causes serious concern. Further Steel Sector is stated to be facing marketing problems. SAIL which made a profit of Rs. 39 crores in 1981-82 has incurred a loss of Rs. 106 crores in 1982-83 and has further increased its losses to Rs. 256.76 crores (provisional) during the first six months of 1983-84. The Committee would urge that Government should study in depth the problems faced by consumer goods and steel industries with a view to take urgent remedial action. Further, the fall in

the ratio of net turn over to capital employed during 1982-83 as compared to 1981-82 in the case of textiles, (179% to 112%) medium and light engineering (118% to 107%) and agro-based (160% to 152%) enterprises is indicative of the need for continuous management alertness to arrest the deteriorating trend in capital productivity.

2.49 It is commonly believed that public undertakings are over-capitalized. One of the reasons for large capital in Public Undertakings is the need for greater investment in infrastructural development when the units are set up in backward areas for bringing about a progressive reduction in regional inequalities and promoting balanced growth in the country. In these circumstances, the capital-output ratios of the units is bound to be adverse. A representative of SCOPE urged before the Committee that the element of additionality in capital investment on account of infrastructural development in backward areas should be identified and separated as is done in the case of nationalised industries in U.K. where this additionality is stated to be subsidised. The Committee are not clear as to what extent the effort of this additionality is offset by various concessions/given for entrepreneurs setting up industrial units in backward areas. The Committee wish to recall that in their 49th Report (1981-82) they had suggested a critical study of the capital output ratio in each undertaking by the BPE to identify the problems and to take steps to improve the capital efficiency. In reply they had been informed by the BPE that in-depth study of the capital output ratio and other relevant factors would be undertaken on a selective basis. The Committee desire that such growth studies should take into account the additionality of investments needed in backward areas and also the concessions enjoyed in setting up industrial units in such areas. The Committee would await the results of the studies and take action taken to improve the capital efficiency of enterprises where it is low at present.

2.50 Obviously the major reason for the capital productivity being low in public undertakings is the malady of under-utilised capacity. Out of 96 production enterprises, the number of undertakings having capacity utilisation higher than 75% has increased from 36 in 1980-81 to 45 in 1981-82 and further to 55 in 1982-83. However, the Committee regret to note that in many undertakings the capacity utilisation still remains lower than 50% due to power shortages, industrial relations problems, equipment failures, shortage of raw materials and Management shortcomings. The production loss on account of interruption due to power shortages in steel plants and fertilizer units alone was Rs. 140 crores in 1981-82 and Rs. 258 crores in 1982-83. In this connection, the Committee would like to draw attention to their recommendation made in 92nd Report (7th Lok Sabha) on National Thermal Power Corporation, that the central power generating companies should

be empowered to supply power direct to central undertakings wherever necessary and feasible. The Committee hope that with the implementation of this recommendation and the steps proposed to be taken by Government such as investment in balancing facilities and captive power plants as suggested by Cabinet Committee on infrastructural Facilities, periodical review and to be follow-up action by Co-ordination Committee, the capacity utilisation in undertakings will further improve.

2.52 Incidentally, the Committee wish to point out that as many as 18 out of 96 undertakings have not furnished information to the Committee regarding capacity utilisation for the year 1979-80, 12 undertakings for the year 1980-81 and 11 for 1981-82. The Committee desire that the reasons for not furnishing the information by these undertakings should be ascertained and if capacity utilisation in these undertakings is found low necessary remedial steps should be taken early.

2.52 Heavy inventory represents avoidable blocked up capital. The Committee find that position in this respect in certain undertakings is very unsatisfactory. Notwithstanding the fact that the overall inventory position in public undertakings has gradually improved from 183 days of production at the end of 1968-69 to 101 days at the end of 1982-83, there are as many as 14 undertakings where the inventory level is over 365 days and 27 other undertakings where it is over 200 days. In Tungabhadra Steel Products Ltd. it is as high as 1160 days. Apparently, there is lack of proper inventory management and control in these undertakings. The Committee are particularly concerned over the accumulation of finished goods inventory. They desire that there should be an integrated approach to marketing and inventory management. The feasibility of these functions at the functional directors' level in the Boards of Public Undertakings may be accordingly considered. Further, decisions should be taken without further delay on the recommendations made in April 1982 by the Expert Committee on Public Enterprises regarding material and maintenance management, for speedy implementation.

2.53 Introduction of standard costing techniques and integrated cost and financial accounting system to allow of usage and rate variance analysis are essential to control waste of material and economise on cost. Further value analysis by interdisciplinary team of executive could result in economy and better use of resource to attain increased productivity of capital. The Committee regret to note that only 27 out of 96 production undertakings have introduced standard costing system and 33 have a system of value



analysis. Although BPE issued guidelines in this regard as far back as in 1968, no follow up action appears to have been taken to ensure that these important systems are introduced in all the production enterprises. According to the Director General, National Productivity Council there has been no deliberate attempt on the part of the undertakings to contain cost of production. It is needless to point out that cost effectiveness and judicious use of resources is a must for the success of any industry. The Committee hope that there would be no more laxity in introducing these vital systems in the interest of productivity and cost control.

2.54 Technology is an important factor of production contributing to increased productivity. In-House R&D could be introduced in areas like product development, product diversification, energy conservation, optimising production capacity, improving the quality and consumption of inputs, adoption of new technology, technology upgradation and modernisation. According to the information made available to the Committee only 62 undertakings have an in-house R & D unit. In many undertakings the awareness of the importance of R&D is lacking. The Committee hope that suitable measures will be taken to promote R&D activities in these undertakings. They suggest that the desirability of establishing an apex body for each sector of public undertakings should be studied with a view to evolving common approach to basic problems of allied undertakings.

## CHAPTER III

### PRODUCTIVITY OF LABOUR

#### A. Value added per man-month

The economic justification of any organisation lies in its contribution to economy which is measured in terms of value added it has generated. In the year 1982-83 enterprises producing goods have generated a total value added of Rs. 8377.81 crores as against Rs. 6429.87 crores in 1981-82 indicating an increase by 30.30%.

A representative of SCOPE pointed out in evidence :

“There are a number of enterprises where there would be an element of surplus labour or even surplus staff. It also includes partly managerial staff. If we look in terms of ratio in the area of staff or labour productivity in terms of output per employee or value added per employee, the situation in some enterprises will not be a happy one.”

3.2 In reply to Committee's query, BPE mentioned the following enterprises where value added per man month was less than the average monthly emoluments per employee during 1981-82.

Names of the Enterprises	Value added	Average monthly
	per man month	emoluments per employee
	Rs.	Rs.
1	2	3
1. Braithwaite & Co. Ltd	592	1297
2. Mining & Allied Machinery Corpn. Ltd.	950	1315
3. National Instruments Ltd.	1015	1421
4. Central Inland Water Transport Corpn.	1052	1946
5. Artificial Limbs Manufacturing Corpn. of India Ltd.	508	889
6. Bharat Ophthalmic Glass Ltd.	1537	2065

1	2	3
7. Rehabilitation Industries Corpn. Ltd.	284	687
8. Tannery & Footwear Corpn. of India Ltd.	566	806
9. NTC (DP&R)	461	616
10. NTC (MP)	751	936
11. NTC 9 (WB A&O)	616	762
12. Bharat Process & Mechanical Engineering Ltd.	1008	1475
13. Hindustan Copper Ltd.	750	941
14. Bharat Dynamics Ltd.	1311	1510
15. Hindustan Shipyard Ltd.	1159	1347
16. Cycle Corpn. of India Ltd.	1318	1446
17. National Bicycle Corpn. Ltd.	937	1268
18. British India Corpn. Ltd	730	777
19. Elgin Mills Ltd.	700	826

3.3 BPE stated that many of these enterprises were taken over as sick units and are under revival. Constant efforts are stated to be continuing to revive them. Lack of orders, use of out-dated technology, old plant and machinery, surplus man power etc. are reported to be the main factors responsible for low value addition.

#### B. Surplus Labour

3.4 Productivity studies undertaken by the National Productivity Council in some of the public sector undertakings reportedly establish that man-power in many of the units was in excess of the standard requirement. NPC informed the Committee that studies in some public sector undertakings have shown an excess of 10 to 15% hands to be readjusted redployed through expansion and other projects. It has been reportedly found that basic working methods and systems adopted in some Public Sector Units are somewhat elaborate and sometimes unproductive resulting in excess and redundant employment. According to SCOPE, productivity is a definite casualty in those public enterprises where surplus labour is too serious a problem to be tackled by the plant management as the ultimate decision about retrenchment vested solely with Government.

3.5 Enquired whether surplus labour could not be retained and employed productively, a representative of SCOPE explained in evidence :

“In the public sector organisations like Hindustan Steel Works Construction Company which are exclusively construction organisation, there are certain problems faced. If their job has come to an end, either they should retrench their men or they should transfer their men to some other construction area. That is not happening. Since increased staff and labour costs cannot continuously be borne by the construction organisation, willy-nilly, it gets passed on to the project. In other words, when a large amount of labour becomes idle towards the end of construction work, there is no proper means of getting them moved to another construction by the public sector construction organisation. Even within the State, there is opposition to such movement. This is something for which solution has to be found.”

3.6 The witness however conceded that in production organisation which are moving from construction activity to operational activity, a great deal of this problem can be taken care of. Illustrating how this was done in steel companies, he said :

“In steel for example, a large number of construction staff gets involved initially which at the end of the construction activity is rendered surplus. When we initially had the problem with the setting up of Steel Plant at Bhilai, Rourkela and Durgapur, we had an outlet in Bokaro. Many of them went over to Bokaro. Subsequently, we also had a very rigorous system whereby we retrained many of the people for our operational needs and a large number of them were absorbed in our existing Steel Plants. In the executive areas, they are able to move over to new plants like Vizag etc.”

3.7. Another representative of SCOPE emphasised that in order to overcome the problem of surplus labour, a long-term strategy has to be planned everywhere, and it must get accepted by all the concerned parties, so that there is continuous support for it.

3.8 At the instance of the Committee, BPE issued instructions as early as in 1971 to review the existing manpower and the organisational machinery in public undertakings for taking effective steps to reduce surpluses at least over a period. The Committee wanted to know whether the Government had ever reviewed the extent of surplus labour in public undertakings since the issue of instructions in 1971 with a view to divert the surplus labour to other now undertakings/projects where there are shortages.

The DG, BPE replied in evidence :

“In September, 1978 a note on the deployment of the surplus staff in the public sector enterprises was submitted by the Bureau to the Secretaries Committee on Economic Co-ordination. This note was based on the information received from 163 undertakings of whom 46 had surplus staff of varying magnitude. The enterprises that had surplus staff were—Coal India, National Textiles Corporation, Hindustan Steel Works Construction and so on.

The main factor which had contributed for this surplus was carry over surplus from the sick textiles mills which were taken over; some restrictions imposed by the labour laws and the Indian Mines Act on the employment of the female workers, in the under-ground mines, contract and casual labour which was before nationalisation of the coal mines, winding up of the enterprises, indiscriminate and improper recruitment tookin the initial stages. Sometimes re-organisation place without retrenchment.”

### C. Incentive Scheme

3.9 The Committee observed from the information furnished to them that only 55 out of 96 production enterprises presently have incentive scheme linking wages to productivity. Further it was noticed that the floor limit of incentives offered in some cases correspond even to low level of capacity utilisation or plant operation. The extent of incentives offered corresponding to various levels of operation also varied from undertaking to undertaking. The incentive scheme in many undertakings were also found to be not based on a systematic identification of labour contribution to productivity increase. When these facts were pointed out to the BPE, a representative of BPE said in evidence :

“It is true that in motivational incentive schemes, one has to be careful in determining what is the threshold level because that is what an enterprises would call as normal work. A large number of these schemes have been in existence for many years. In fact some of them may be in existence even before the BPE was set up. At that point of time, there were several schemes which one could easily say were not based on any scientific methodology. The schemes were like adhoc schemes. There were schemes introduced to say, if you produce so many rupees worth of goods I am going to give you another 10 per cent increase in the wage. But the rupee value keeps on changing. In some enterprises, such schemes continue and one could very well say that these schemes are not based on payments for additional work.”

Government is stated to be of the view that wherever there is a sizeable surplus of man-power in excess of a prescribed norm, Management should immediately review the existing Production Incentive Schemes to determine the desirability of continuing such a scheme any further. Informing that there are some practical problems in introducing change in the existing schemes, the witness said :

“Once the scheme is introduced, its withdrawal becomes very difficult because the labour gets used to a certain amount of pay packet. When we revise the scheme, it has been the attempt of the BPE to emphasize that it is done on a more scientific basis. Any revision will not be acceptable to organised labour unless it increases payments over what the previous scheme provided for. You cannot expect them to make greater effort for lesser payment over what they had become used to.”

He, however, added :

“In regard to cases which were referred to us for revision or for introduction of incentive schemes in no cases were agreeable to any payments being made at threshold level which was below the normal.”

BPE is stated to have evolved certain broad guidelines regarding threshold level for incentive schemes. Indicating that several factors like production index, labour index as compared to standard man-hours, attendance factor, quality of product-mix, etc. will have to be looked into while approving incentive schemes, the DG, BPE, pointed out :

“One major recommendation which we had made to the committee of Secretaries was that such incentive scheme should get the approval of the Bureau of Public Enterprises. Accordingly, some of these incentive schemes are given to us and we exercise our judgment on these and then try to suggest alternatives. But I must confess that not all the public enterprises have come to us or are coming to us. This is a matter which I intend again taking up with the Cabinet Secretary.”

3.10 This Committee had *inter alia* recommended in their 28th Report (1981-82) that in order to improve upon the productivity of labour, an incentive system should be devised linking wages including DA, bonus to productivity and introduced as early as possible. Asked about the action taken on this recommendation, the DG, BPE said in evidence :

“The BPE had issued a letter sometime back to all the public enterprises that whenever wage negotiations are discussed, there must be linkage with productivity. This was also a part of the Government’s policy. As a

result of that, when the wage negotiations are discussed, they are asked to incorporate a clause in the wage agreement to the effect that so much of production must be achieved."

3.11 When the Committee pointed out that the wage increase is not linked to productivity in actual practice, the DG, BPE admitted :

"You are partially correct. We had recently more than 50 agreements. There is some sort of a pretext of having incorporated a Clause relating to productivity. We specify the broad principles but leave them to management. But unfortunately the management is not strong enough to incorporate a suitable Clause. They put some sort of a Clause and imagine that they have complied with the requirements. This is the unfortunate position."

#### **D. Workers Participation**

3.12 According to the information furnished to the Committee, only 57 out of 96 production enterprises have a scheme of workers' participation in industry at shop floor and plant level with a view to improving productivity. During the course of the Committee's examination of Bharat Petroleum Corporation Ltd., it came to notice that the workers in the BPCL's refinery have been boycotting all the Joint forums for participation since September 1978. Taking note of this fact, the Committee wanted to know how far the scheme of workers' participation has been successful in public undertakings. The DG, BPE stated in reply, that the workers participation scheme, although started in 1975, had largely remained ineffective in many of the public undertakings. Explaining the reasons for this, the witness said :

"One major interest of workers is primarily bargaining rights, and those issues are produced from the scope of worker's participation at shop level or at the plant level meetings. Secondly, whatever there is some slight industrial unrest, some strained relationship, the immediate casualty is the withdrawal of their participation at the shop level and at the plant level. Thirdly, the concept of workers' participation itself needs to be permeated to the desired level both amongst the workers as well as the managers. Still, they act in water-tight compartments."

3.13 Speaking about the new experiments tried in the scheme of workers participation, the witness said :

"We have introduced workers' participation through a new concept of Quality Circles. This is somewhat a new concept. It is quite some years,

old concept in Japan. One of the basic principles is voluntary participation. This concept seems to have achieved substantial success in public undertakings, like BHEL and SAIL. Today, in BHEL itself there are more than 350 quality circles in which workers and groups participate.

Apart from shop level and plant level, as far as the workers participation at the Board level is concerned, very recently the Labour Ministry has issued a notification in which it has been specifically stated that this will be primarily tried in the public undertakings on a selective basis, without any need for resorting to legislation.....Such participation will also be at the shop floor level and the plant level. The participants will be chosen from both the management as well as the labour."

3.14 According to SCOPE the concept of workers' participation wherever it has been introduced, can be further extended and where it has not been introduced a beginning can be made by adopting the concept of 'Quality Circles.'

3.15 Asked what are the prospects of improving the productivity by this scheme, the DG, BPE stated in evidence :

"That is there. As far as the quality circles are concerned, I myself have visited BHEL some months ago. I saw the functioning of quality circles there. There was one particular shop in which the rate of rejection was as high as 90 per cent. With the voluntary participation of the workers, the rejection rate from 90 per cent came to almost zero per cent. This was possible because a worker who handles machines and materials every day knows where the shoe pinches."

3.16 He stressed that it is this type of concept which needs to be encouraged more and more.

3.17 A survey carried out by the BPE in 1982 had revealed important gaps and it was felt that there was scope for improvement in the periodicity and the scope of meetings between workers and management. There was also need for some preparatory work to be done by the enterprises in respect of training, education etc. of the workers and the Managers so as to create an awareness for the proper acceptance of the scheme. The BPE has launched a programme of holding regional and national seminars which could help bridge this gap. The BPE has also issued guidelines to all public enterprises suggesting them to incorporate in their annual reports a chapter on 'Workers' Participation, specifically highlighting the level of participation and the work done by the corporation to prepare workers for their effective participation.



### **E. Industrial Relations Law**

3.18 The total number of mandays lost in 76 production enterprises during the year 1982-83 on account of industrial unrest, non-availability of raw materials and interruption on account of power and water shortages was stated to be 36,11,837. The value of production loss is estimated to be Rs. 846 crores.

3.19 NPC stated that some of the provisions of industrial relations law impede productivity. Asked which are these provisions and what change NPC would suggest in the existing industrial relations law the DG, NPC stated in evidence :

“There are three factors which provide for this type of situation which can be taken care of by law. One is, there is no co-relation between wage and productivity factor. Therefore, wage disparities are very far and wide. In the same type of industry there are disparities. Therefore, the law must ensure in the long run that for a period of time there should be a homogenous pattern at least in the same type of industry. This is coming in the way of more production. The other is industrial disputes. We say that they can be resolved at the unit level without taking recourse to courts. The third is, there should be a provision for upgradation or training of the people, which should be made obligatory on the part of the management. What is happening is that they just try to scuttle away this provision and there is no systematic training at the unit level. In the industrial relations law the training element must also find a place.”

3.20 From the information furnished to the Committee it was observed that there are a large number of unions in many undertakings leading to inter-union rivalries and avoidable disputes. For instance, in one of the units of BHEL, there are as many as 21 registered unions.

3.21 NPC suggested that the existing industrial relations law are required to be examined from the view point of the following problem areas :

- (i) Multiplicity of unions.
- (ii) Inter-union rivalries.
- (iii) External interferences in trade unions.
- (iv) Lack of confidence between management and labour.
- (v) Absence of proper environment of participation and sharing the gains of productivity.

(vi) Delay in settlement of disputes through adjudication, conciliation etc.

Reacting to this suggestion, the DG, BPE said :

“The harmonious industrial relations certainly are indispensable if the public enterprises are to perform well, including better productivity. The multiplicity of unions and inter-union rivalries have a vitiating experience so far as industrial relations in many of public undertakings are concerned. Outside interference also is there in some of the affairs of the unions and this leads to an unhealthy atmosphere because it may lead to even politicalisation of trade unions. This prevents local people who have a lot of stake in the well being of public sector undertakings from being trained up to take up the leadership once the outsiders take it over. Similarly, the disputes settlement machinery as it exists today is also very time consuming and sometimes frustrating.”

3.22 It has been stated that some of these problems were considered by BPE as well as by the Chief Executives Conference and the suggestions emerged therefrom were taken up with the Ministry of Labour. Explaining the action taken on these suggestions, the DG, BPE said :

“The Labour Ministry has informed us that the Trade Unions Amendment Bill, 1982, contains a provision for reducing the multiplicity of unions and, according to this provision a minimum qualifying membership of 10 per cent of workers subject to a minimum of 10 employees in an establishment or industry is necessary for recognition and registration. The Bill also contains a provision for reducing the total number of outsiders from 50 per cent to 25 per cent. A suitable mechanism for identifying the bargaining agent which would hopefully reduce the inter-union rivalry will create confidence between the management and the labour. That is also under the consideration of the Government. Similarly, the Bill seeks to cut out delays in settlement of disputes. Public enterprises have also been asked by the BPE to activate grievance redressal. Many of them had it and we have asked them to find ways and means for really putting them to proper use and wherever they are dormant, to activate them so that the grievances are reduced to a minimum and industrial relations climate would improve in the country.”

3.23 The Committee's examination of labour productivity in public undertakings has revealed that value added per man-month has been not only low but it is even less than the average monthly emoluments per employee

in as many as 19 out of 96 undertakings. Such undertakings cannot but be sick, and they are sick. The Committee require that Government should critically review the working of these undertakings and launch schemes for their revival and take emergent measures to put them on sound footing.

3.24 Productivity is a definite casualty in an organisation where there is too much of surplus labour. At the instance of the Committee on Public Undertakings, BPE issued instructions in 1971 to review the existing manpower and the organisation machinery in public undertakings for taking effective steps to reduce surpluses at least over a period. However, an assessment made by BPE in 1978 showed that 46 out of 163 undertakings had surplus staff of varying magnitude. Productivity studies undertaken by NPC in some undertakings has shown an excess of 10 to 15% hands in each organisation. Thus no serious efforts appear to have been made to adjust the manpower according to requirement and productively deploy the surplus manpower. One of the reasons for emergence of surplus staff is stated to be indiscriminate and improper recruitment in the initial stages and elaborate and unproductive working methods and systems adopted in the organisations. These factors can certainly be taken care of by management with proper planning and industrial engineering. The matter of transfer of surplus labour and staff from one undertaking to another can be seriously considered by the management of the Companies in particular and generally by the administrative Ministries, having more than one undertaking in order to relieve the situation. The Committee would like to be informed of the measures taken by Government as a result of its findings in 1978 to contain and productively utilise the surplus labour in undertakings and the progress made so far as a result thereof.

3.25 Productivity linked incentive schemes if devised carefully will yield good results. The Committee find that there are a large number of undertakings which have not introduced any such scheme and on the other hand in many of the undertakings which already have a scheme, the incentive appears to have degenerated into additional wage, having been linked to production even below the threshold should level. It is not clear whether BPE has issued any guideline in this regard. The Committee would urge that the administrative Ministries should review in consultation with BPE the productivity incentive scheme already in operation in the undertakings under their control in order to make it scientific and result-oriented and also ensure that such a modified scheme is introduced in all undertakings. The Committee regret to note that the

undertakings have not shown any enthusiasm to link wages including DA and bonus to productivity as recommended by them in their 28th Report (1981-82). Although some sort of clause relating to productivity is incorporated in the wage agreements, this is not actually put into practice. The Committee hope that the administrative Ministries will ensure effective implementation of the Committee's recommendation in its true spirit in future.

3.26 The Committee regret to note that the scheme of workers' participation started in 1975 at shop floor and plant level with a view to improving labour productivity has not yet taken roots in public undertakings. Only 57 undertakings have so far introduced the scheme. Even among these, in many undertakings the scheme has largely remained ineffective for want of proper acceptance of the scheme. There is scope for improvement in the periodicity and the scope of meetings between workers and management as revealed by the survey carried out by BPE in 1982. The Committee would urge that effective steps should be taken to bridge these gaps. The Committee also recommend that the experiment of Board level participation if found to yield desired results should be introduced in all undertakings early.

3.27. The total number of mandays lost in 76 production enterprises during 1982-83 was 36,11,837 which resulted in a production loss of Rs. 846 crores. One of the major reasons for the mandays lost is stated to be industrial unrest. NPC has pointed out some problem areas in this connection. The Committee desire that remedial measures to mitigate these problems should be taken expeditiously in order to improve the industrial relations climate in public undertakings.

## CHAPTER IV

### MANAGERIAL PRODUCTIVITY

#### A. Managerial efficiency

According to SCOPE most of the factors which prevent public undertakings from registering higher productivity owe their origin to the external factors such as social costs imposed on public undertakings on account of investment in areas which suffer from built-in disadvantages, Government's policy of taking over sick units and operate them even when they are economic disasters, lack of adequate power supply, loss of mandays due to non-availability of raw materials, industrial unrest and labour strike and water shortage.

4.2 The committee pointed out that the public undertakings have to work within the policy confines and that they are also subjected to the environmental and infrastructural constraints. They enquired whether, granting these, it can be said that the productivity in public undertakings was at the optimum level and whether the productivity cannot be improved by better management and R & D support. A representative of SCOPE stated in evidence that in his opinion there is substantial scope for increasing productivity even granting the constraints that are imposed on the public sector. He agreed with the Committee that the Management and R & D support will increase productivity but pointed out that these are not the only areas which would increase productivity.

4.3 According to NPC there are five major areas which come in the way of improved productivity in public undertakings. These are energy conservation, materials utilisation, downtime of machines and failure of equipment, labour-management relations and environmental pollution. Indicating that improvement in these areas can be made by better management, the DG, NPC said in evidence :

“In each of these five areas, we carried out certain sample studies. In the energy sector we analysed twelve industries across the country ; out of which 220 units were selected, and our studies have gone to show that there is a possibility of energy conservation from 7 per cent to 25 per cent. This will not only conserve energy but also bring about substantial savings. The second is the raw materials part. There also we found that from 4 per cent to about 15 per cent, materials conservation could be brought about which could substantially improve productivity ; it will vary from industry to industry. Similarly, in the maintenance area, the down-time of machines in certain units has been as high as 22 per cent, ranging from 7 to 22 per cent. These lie within the purview of the management. If these three areas can be plugged consciously, there can be a visible improvement in performance.”

4.4 NPC held the view that accountability of the top management should be precise and quantified. Elaborating this point in a written reply, NPC stated :

“Top position in organisations should have clearly defined job descriptions identifying their roles and responsibilities. Clarity of goals/objectives to be achieved is essential. Further commitment to the time-bound targets is a must to ensure accountability of those positions.”

4.5 Asked about the need for role clarity, performance standards and objective measurements or evaluation criteria in order to improve the managerial productivity in public enterprises, SCOPE, stated in a written reply :

“There is, no doubt, need for greater role clarity, performance standards and objective measurements or evaluation criteria for improving the managerial productivity. The Public Sector Undertakings have already done considerable work in this area. However, this is an on-going process and should receive constant attention. A system in which ‘self-appraisal’ by a manager on his own work forms the basis for further comments, evaluation and, also provision for discussions with the concerned individual, would help in objective evaluation. Such a system will also help to avoid any sense of grievance on the part of individual regarding subjectivity in reporting on his performance.”

4.6 NPC stated that too much reporting and excessive and redundant control on the operational performance of the undertakings led to demotivation.

4.7 According to SCOPE management deficiencies are the off-shoot of the control exercised on them by various agencies like Government, Administrative Ministry, Trade Unions etc. Asked to elaborate this point and suggest any specific changes in the control mechanism having regard to productivity needs, a representative of SCOPE said :

“Our submission is that in general it can be said that the focus on setting out clear objectives to ensure the required input and evaluating performance annually in terms of the objectives is the mechanism to control productivity. This, of course, can be done by those who have the experience of successfully running the public sector or some industries. If a man or an organisation clearly knows what is expected and what are the input required and then everything is done to make sure that he gets the input and make him responsible to give the results, then, at the end of the period it can be evaluated what happened, whatever the period is defined. In between he should be left free to pursue the strategy to achieve those

objectives ; and this would be the simplest and the best method. Now, this is progressively being accepted.”

4.8 NPC pointed out that the bureaucratic system promoted and adopted in the undertakings resulted in reduced accountability at all levels.

4.9 When the committee sought the comments on a general impression that lack of accountability is responsible for the bad performance of certain public undertakings, the DG, BPE said :

“I think it would be very difficult to say, but in the totality of public sector as a whole.....there has been a very encouraging improvement in the functioning and to just generalise and say lack of accountability is responsible for some losses, is not true. Just as some have the impression of lack of accountability, there is a contradictory impression that there are the many controls on public enterprises. I do not know whether either impression could be considered fair. At the same time there are some public sector units which are doing very well despite the impression that there are far too many controls.”

4.10 The Corporate management style is reportedly towards non-risk taking rather than pro-action to challenges. The reliance is stated to be more on precedences, procedures and systems than challenges and responses. This has led to lengthy hierarchy within the organisation, multiple reporting, lack of entrepreneurial initiative and maintenance of *status quo*. Asked how the entrepreneurial initiative could be infused, lengthy hierarchy pruned and reporting minimised in public undertakings, SCOPE stated in a written reply :

“At the outset, it may be stated that there has been considerable development in the ‘corporate management style’ in the Public Sector. While the position may vary, from Undertaking to Undertaking regarding the degree to which the style has become ‘Pro-action to challenges’, it would not be correct to assume that the management style in the Public Sector relies more on precedences, procedures and systems, or that entrepreneurial initiative is inhibited and maintenance of ‘status-quo’ gets encouraged. However, the development is required to be sustained and carried forward further to meet the challenges of growing requirements.”

4.11 SCOPE stated that some of the points on which individual undertakings should give greater attention in order to bring about healthy corporate management style are as follows :

- (a) revamping of management development training systems to give greater encouragement to entrepreneurial initiative ;

- (b) increased use of tools like 'management by objective', whereby 'hierarchical' tendencies are obviated, as well as, an individual's achievements and failures are determined more objectively ;
- (c) increasing the use of 'productivity centre' concept, whereunder the actual contribution at different levels can be assessed concretely ; and
- (d) periodical review of the delegation of powers to suit the situation.

It will also help if the Boards of Directors are required to review the development and progress in all these areas at regular periodicity.

4.12 The following suggestions were reportedly made in the Action plans evolved by National Workshop on Higher Production and Productivity for improvement in Management Techniques :

1. Strengthening monitoring system
2. Preparation of corporate goals
3. Adopting of energy conservation measures
4. To develop manufacturing arrangement for supply of spare parts
5. To adopt participative style of management
6. To improve maintenance management practices
7. To improve project planning and control system
8. To adopt modern management techniques in materials management etc.

#### System of reward/punishment

4.13 NPC stated that there is no built process of reward and punishment based on performance for the senior managerial positions. Amplifying this point, DG, NPC stated in evidence :

"There is no incentive mechanism to recognize the good performance at all. They are part of the system ; you cannot give any accelerated increment. Ultimately, an inefficient person is compared with a loss efficient person. Therefore, the system slows down rather than picks up. There are reduced levels and chances of promotion.....When seniority is the only basis, then merit is the casualty. There should be greater weight for merit. In many enterprises there is so much of force on seniority should be the criterion....Then there has to be a well-established performance appraisal system. At the moment the confidential report system is highly subjective...



The whole appraisal mechanism is totally outmoded. The evaluation system and the performance appraisal system will have to be related. If the performance appraisal system is there, proper incentives are there and cadres are there, in the long run they will be more helpful.”

4.14 The Committee were informed by IPE that the award and punishment system in public enterprises is neither objective nor timely. SCOPE stated in a written reply that presently, in most of the public sector undertakings, the system of reward-punishment at all levels relates to promotions/supersessions. Some undertakings have also introduced a system of rewards in specific areas. Provision also exist for providing incentive through increments. Demotion or removal is also provided for in the system, but, in practice, the use of these provisions has not been as effective as required at times. For further improvement and additional suggestions, a selective inter-sectoral study would appear to be desirable.

### C. Delay in top appointments

4.15 SCOPE pointed out that frequent changes at the top level posts, vacancies remaining unfilled for months together, short tenure of Chief Executives and certain other factors demoralise plant management and are standing in the way of reaping productivity gains. According to SCOPE at one point of time nearly 35 posts of Chairmen or M.D. of public undertakings reportedly remained vacant over a long period. Succession planning to top posts in public undertakings is obviously not adequate.

4.16 Asked how many posts of Chief Executives are vacant in public undertakings at present and to indicate the duration each of the posts being vacant along with reasons therefor, the DG, BPE said in evidence :

“As on 31.12.1983, 13 posts of Chief Executives were vacant. Out of these, six posts are vacant for less than 3 months ; two vacancies are for two new corporations set up recently. Out of these 13 posts, recommendations have already been made by PESE for 11 posts. Recommendations in respect of only 2 posts have yet to be received after the selection is made by the PESB. These posts fell vacant in September, 1983 and November, 1983. The delay in filling up these 11 posts is because of the time taken in processing the recommendations for the approval of the Appointment Committee of Cabinet in the administrative Ministries, delay after the Appointment Committee gives clearance for the persons concerned to join these posts, because in the meantime the selected persons might have joined the private Sector. Efforts are being made to make the appointments in advance for the vacancies likely to occur as a result of superannuation, but when it is other

than superannuation, the vacancies cannot be anticipated and it becomes a little more time consuming for taking steps for filling up the posts”.

4.17 When enquired whether it is not desirable to have a policy of granting a minimum tenure of five years to Chief Executives, the witness said :

“The full time Board level appointments in the public sector enterprises are made on a contractual basis. The earlier practice was to give them a tenure of five years. Of late, the initial tenure is only two years so that the performance could be watched during this period and then extended, if necessary. The general principle is that the public sector undertakings should not be saddled with non-performers. One might ask that when there is always a clause of three months’ notice, is it really necessary to keep this period of two years ? The human tendency is that when one knows that there is automatic termination of the contract after two years, one is likely to take the post seriously rather than invoking a special penal clause”.

4.18 BPE mentioned in a written reply that a study of the age composition of the top executives as on 1.1.1983 revealed that nearly 60% of the top executives in Schedule ‘A’ scale of pay are over 55 years. Thus, around 60% of the vacancies shall fall vacant in Schedule ‘A’ scale of pay during the next three years or so. Similarly, in Schedule ‘B’, about 30% of the posts will fall vacant during the next three years. The percentage is 23% for posts in Schedule ‘C’ scale of pay. In view of the above respective there is a special need for training at the top level.

4.19 In regard to the steps initiated to meet the needs of training at the top level, BPE stated as follows :

“In 1983-84, the Advanced Management Programme was organised by the BPE in collaboration with the Indian Institute of Management, Calcutta in May-June, 1983. This covered the senior executives with potential for holding Board level posts including posts of CMDs. The total duration of the programme was 8-weeks and 34 top executives participated in the course.

Similarly, the BPE has also sponsored a training programme for senior level Managers of the public enterprises. The objective of this programme is to impart training to 25-30 senior Managers of the rank of Dy. Managers of public sector enterprises. This training programme will act as a second level programme of the Advance Management Programme. The total duration of this programme is 6 weeks and is being implemented in collaboration with the Management Development Institute, Gurgaon.

The BPE has also decided to set up a Research Cell for public enterprises in the Administrative staff College of India, Hyderabad. The Cell will work in close association with other institutions like the Institute of Public Enterprise, the Centre for Continuing Education, for Public Enterprises etc. Among other things, the Research Cell would organise also seminars on Public Sector Management and conduct courses exclusively for public sector Managers in different functional areas”.

4.20 The research cell expected to function from early 1984. For the year 1982-83 and 1983-84, the BPE has respectively drawn up 35 and 39 collaborative programmes within the country for middle, senior and top level executives of the public sector enterprises.

4.21 Productivity in public enterprise depends to a great extent on the type of managerial personnel it has. . . . It has been stressed by NPC that evolving a cadre of managerial personnel on the lines of All India Services is a sine-quo-non for efficient and effective management of public undertakings. Arguing in favour of this suggestion, the DG, NPC stated in evidence :

“There should be mobility from one public sector to another, which is now not taking place.....If the whole public sector is one entity with a common cadre the mobility factor will be there. Today, however much inefficient a person he may be, he will not allow others to go up and the people down the line feel helpless. So, mobility has to be there. If water is stagnant, it stinks in the long run ; if it is flowing, it is always pure”.

He added :

“There should be suitable promotional channels. In some units people get stuck up ; while in some others, because of growth, they go up very high and they are not able to hold the weight”.

4.22 Enquired whether a common cadre is envisaged only for top management position i.e. Board level, NPC stated in a written note that this common cadre should cover managerial levels upto the Board level similar to Administrative Service Probationers having their promotional channels to move up.

4.23 Asked above Government's reaction to this suggestion, the DG, BPE referred to the 49th Report of the Committee on Public Undertakings (1981-82) wherein it had been recommended that the desirability of forming an All India Management Service for the top posts within the purview of Government should be examined. Indicating the conclusion reached by Government after examination of this recommendation the witness said :

“Once this is done, there would be the rigidity of the cadres which would be brought in, like fixation of seniority, transferability and so many other things and this will become as a sort of restraint. Further, the public sector enterprises managers should also be committed to the individual public sector undertakings and not merely to public sector as a whole. The management profile of the public sector varies tremendously. Some of them are manufacturing undertakings, like steel or fertilisers. Certain others are service sectors like the Shipping Corporation, STC, MMTC. In such diversity common cadre would neither be devisable nor practical. Top management cadre is a cadre where management plays a much more stronger role as compared to the middle-level, If the intention is to build up an All India cadre for all public enterprises, probably we would treat them like Government Departments. It is not desirable. Also it is not very practicable.”

**4.24** There is admittedly substantial scope for augmenting productivity in public undertakings by better management even granting the environmental and infrastructural constraints faced by them. The sample studies conducted by NPC reportedly show that there is scope for achieving energy conservation by 7 to 25%, materials conservation by 4 to 15% and also considerable scope for bringing down down-time of machines by better management. There is, however, stated to be a need for greater role clarity, performance standards and objective measurements at the top level for improving the managerial productivity. The Committee hope that the performance criteria models evolved by administrative Ministries recently will fulfil this requirement to some extent. The Committee note the suggestions made by SCOPE for bringing about healthy corporate management style and the suggestions made in the Action Plans for improvement in management techniques. The Committee trust that these suggestions will be implemented in right earnest keeping in view the need to improve managerial productivity in public undertakings.

**4.25** The Committee have been informed that the reward and punishment system in public undertakings is neither objective no timely. The Committee would expect improvement in this regard after a critical study by the Boards of Management and administrative Ministries/Departments.

**4.26** Succession planning to top posts in public undertakings appears to be inadequate. According to SCOPE at one point of time nearly 35 posts of Chairman or Managing Director of public undertakings remained vacant over a long period. As on 31.12.1983 the number of post of Chief Executives vacant was 13. Long delay in making top appointments could result in lack of direction and control in the enterprises. The Committee would urge that succession planning should be done well in the time to fill up the posts of top executives as nearly 60% of these posts are expected to fall vacant during the next three years. The Committee are not

convinced of the reasons for changing the earlier practice of giving 5-years tenure to top executives. They desire that Government should re-examine this issue having regard to the need to give a reasonable period of tenure to top executives for efficient functioning of the undertakings and in order to maintain continuity in implementation of various schemes and plans. Frequent changes in incumbents of Chief Executives is detrimental to efficient performance by undertakings.

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## CHAPTER V

### PRODUCTIVITY MONITORING

#### A. Utilisation of factors of production

In order to achieve optimum utilisation of factors of production, it is necessary to have the data on utilisation of manhour and machine-hour so as to analyse the reasons for the under-utilisation and take steps to improve. However, the Committee observed that such data in relation to labour-hour utilisation were available from 63 out of 96 production enterprises and in relation to machine-hour utilisation only from 59 public undertakings. The Committee enquired how in the absence of such data in a large number of public undertakings, there could be any meaningful management control at the top level. Conceding that Machine hour utilisation and labour utilisation data are very useful for monitoring productivity, DG, BPE said in evidence :—

“The *inter se* importance of these factors would depend upon which of these factors is the major input towards cost of production in any particular item which is manufactured in any unit. It would be in that area that maximum attention of the top management has to be bestowed. For example, if the major input is labour, as in the case of coal, then the labour utilisation should call for greater attention, rather than machine utilisation, for greater productivity. While in the engineering industry it would be necessary to regard an analysis of manhour and machine-hour utilisation as a primary function, it may not be so relevant, on at least to the same extent in the case of processing industries like fertilizers, steel, cement or petroleum, where the bulk of the machine tools would be on job work for maintenance only. Many enterprises have reported that they do not maintain the statistics of man hour and machine hour utilisation, as they are engaged in continuous processing industries.”

5.2 The positions regarding overall machine-hour utilisation in the 96 production enterprises during 1979—82 was reported to be as indicated below :—

Overall Machine Hour Utilisation							
Year	100%	90 to 100%	75 to 90%	50 to 75%	Below 50%	%not Rep- orted	Not applicable
1979-80	4	5	12	27	7	40	1
1980-81	6	6	18	24	6	37	1
1981-82	6	5	17	27	3	37	1

5.3 The machine-hour utilisation was less than 75% in 30 out of 58 enterprises in 1981-82. The Committee asked what according to BPE is the optimum utilisation and whether there was any attempt to analyse the cases of enterprises where the utilisation was very poor. The DG, BPE said in evidence:—

“The utilisation of each plant machinery will depend upon the type of machinery and the purpose for which it is installed. Certain machines are designed and required for operation on continuous process, there would be others which would operate intermittently, or used only as a stand-by. As such it may not be very practicable to fix general optimum levels of machine hour utilisation covering all types of industry.”

The witness, however, mentioned :—

“The requirement of plant and machinery, projected in the feasibility report or the detailed project report, is based on certain levels of utilisation for each plant and equipment. This is examined in detail by the BPE and also the Planning Commission before the investment decision is taken. When they come up with revised cost estimates, this is again examined. Several Expert Committees and Study Teams have been constituted by the Government from time to time to go into the reasons for low capacity utilisation and one of the factors which these study teams will take note of is the actual machine-hour utilisation in the public enterprises which they will study in depth. In all such studies, the BPE is invariably associated.”

5.4 The position regarding labour utilisation in terms of percentage to the total available labour hours in 96 production enterprises during 1979—82 was as given below :—

Year	100%	90 to 100%	75 to 90%	50 to 75%	Below 50%	No. of undertakings who have not indicated percentage.
79-80	5	17	18	22	4	40
80-81	5	15	23	12	5	36
81-82	5	16	28	10	4	33

5.5 It was observed that the percentage of labour utilisation to the total available labour hours was less than 75% during 1981-82 in 14 out of 63 enterprises for which information has been furnished.

### Performance Review

5.6 The Committee received a suggestion that there should be a Monitoring Cell in the administrative Ministries for undertaking periodic review of the

deviations from standards and causes for the same, as well as advising the policy makers about the measures necessary to maintain high level of productivity. This Cell, according to NPC, should strive to integrated, productivity monitoring with the existing performance monitoring being undertaken by the Ministry. Asked about Government's reaction to this suggestion, the DG, BPE stated in evidence :—

“The productivity is closely linked to performance. If there is no increase in productivity, then the performance suffer. The monitoring of performance in productivity by the Ministries is already done in an integrated manner. I do not subscribe to the view that productivity can be delinked from the performance .....I am one with you that the performance meetings should take place regularly.....In addition, some of the Ministries have got advisers, who closely monitor and see how the production performance is in respect of their undertakings.”

5.7 The Committee came across during their examination of BPCL, NSIC and HMT that performance review meetings which were required to be held by the Administrative Ministries once in a quarter were not held regularly. The DG, BPE stated in this connection during evidence :—

“The position has now improved at least in the last one year. The Ministers themselves are taking performance review meetings in several Ministries. This could be the result of the Chief Executive Conference addressed by the Prime Minister and subsequently letters written by the Finance Minister on the need of improving the performance of the public sector undertakings.”

5.8 Enquired whether performance review meetings if held regularly will contribute to productivity increase in public undertakings, the witness stated :—

“Absence of such reviews can have an adverse effect on the performance of the public sector undertakings. This review takes stock of what is really happening as compared to what was expected to happen. What are the internal constraints which can be easily removed through managerial efficiency or whether there are external constraints. I am sure the Ministries are in a much better position to tackle external constraints through their sister Ministries rather than public sector undertakings themselves..... Therefore, performance review is a must and it has a very good impact on performance if it is done regularly.”

5.9 It was pointed out by SCOPE that the reviews and monitoring of productivity performance carried out routinely at enterprise level and Govern-



ment level would be more useful and meaningful if the lead to follow-up action by the administrative Ministries. A representative of SCOPE said, in this connection :

“The review at the higher level need to be based on providing assistance that is required to be given to encourage efforts towards achieving higher productivity. The best results may not be achieved by rigid direction and control. In the Ministries, the orientation should be towards maximum encouragement and assistance. For example, in the Ministry of Heavy Industry, there has been a follow up by instituting productivity incentive during the Productivity Year which has generated a lot of enthusiasm at all levels. There should be more emphasis on positive action and encouragement should be given towards this end.”

5.10 Reacting to the above criticisms, a representative of BPE stated during evidence :

“It is true that the effort has to be for a coordinated development and the Government has been going in that direction.”

5.11 Explaining the steps taken by Government to ensure proper coordination, BPE stated in a note :

“An interactive Standing Coordination Committee was constituted by BPE in September, 1980 with a cross section of chief executives of public enterprises and representatives of infrastructural agencies such as railways, power, steel, coal etc. as members with a two-fold objective of periodical review of performance and identification of further measures for improving production and productivity in a time frame. The Coordination Committee meets half-yearly and is assisted in its deliberations by sectoral groups of steel, coal, minerals and metals, fertilizers, petroleum & Petro-chemicals, chemicals, pharmaceuticals and consumer goods, heavy engineering, light and medium engineering and transportation equipment. The sectoral groups meet at the end of every quarter for exchange of information and Sharing experience, with a thrust on improving production/productivity...The Committee and its sectoral groups review periodically the State of implementation of the Action Plans which were specifically aimed at improving production and productivity in public sector enterprises.”

5.12 It was suggested by Institute of Public Enterprises that an organisation with inter disciplinary skills may be set up to carry out “Effect vena

Audit" of public enterprises. The BPE was, however, not in favour of creating an exclusive organisation for carrying out effectiveness audit of the public undertakings. The DG, BPE informed the Committee in this connection :—

“This function at a macro level is already being discharged by the administrative Ministries in whom the control of public sector enterprises is vested. For this purpose, the management information system in existence gives in a good measure the inputs and the administrative Ministry monitors the performance. The quarterly performance review is also there. This is more relevant than calling for an apex body outside the public enterprises for the purpose of having a superimposed productivity audit. The primary concern of any chief executive in the public sector enterprises is to increase its own productivity and this productivity culture must be inside rather than asking somebody to go into it from outside.”

5.13 Enquired whether it was not considered necessary to make productivity audit a statutory obligation, the witness said :—

“We feel that enterprises should be encouraged to institute a practice of external productivity audit based on annual targets covering the various areas of management. Increasing the productivity is a continuous managerial exercise which has to be carried out by commitment. But any statutory obligation or compulsory rule may only prove to be counter-productive. However, the administrative Ministries do undertake productivity audit through periodical reviews in which BPE is associated and we feel that this should be adequate.”

### C. Systems and Procedures

5.14 NPC stressed that the Government rules and regulations should be such which generate a climate of confidence and a firm belief that industry can survive only on its competitive strength and the same emerging from higher productivity, minimum cost and acceptable levels of quality. Further, Government policies should encourage healthy and constructive competition. Referring to these views the DG, BPE said “we agree with this subject to the industrial policy of the Government.”

5.15 NPC suggested that the policies, rules and regulations should be re-examined by professional and consultancy organisation to bring about effectiveness in the system.

5.16 The Committee were informed by BPE that the Action Plans evolved by the National workshop on Higher Production and Productivity organised in September, 1980, identified *inter alia*, scope for improvement in system and procedures by Government. Further the interactive Standing Coordination Committee constituted by the BPE is following by the action plans. Asked in what manner the then existing systems and procedures inhibited production and productivity, the DG, BPE informed in evidence :

“The main inhibiting Government system and procedure identified in the national workshop were simplification of the procedure for wage agreements, institutional controls over public sector enterprises, liberalisation of the technology imports. There is need for streamlining investment decisions, procedure for expediting the decisions, reasonable tenure for top management and lastly coordination with State Government for infra-structural supports. In addition, the National Workshop also suggested that certain free foreign exchange should be placed at the disposal of the Chief-Executive of the public sector enterprise for importing emergency requirements of spares or even raw materials.”

5.7 Speaking about the changes since made in the systems and procedures, the witness said :

“In regard to investment decisions, Government have taken steps to eliminate delays by providing a specific time-table, more specifically, the delegation of powers in regard to investment decision by the public sector enterprises themselves has been liberalised and more power has been given to the Board of Directors.

In regard to institutional control for the public sector the Government policy is to provide for autonomy to the public enterprises in carrying out their operations. It has been our constant endeavour to avoid any tendency towards informal control and indirect controls. What is really reprehensible is not the formal one, but the indirect or informal control, back seat driving where you do not take the responsibility for it but, at the same time, exercise your authority. The existing delegation of power is not considered as inhibiting the performance of the public enterprise. There is no need for giving more delegation, at least for the time being. In regard to wage settlements broad parameters have already been laid down and invariably all these agreements required Government approval.

Co-ordination with the State Governments is also one of the recommendations, specially for infrastructural support. In specific cases of cons-

straints, the practice has been for the administrative Ministry to assist the public enterprise. There have been instances where these issues have been taken up at the Ministers level also.....

“The National Workshops specific recommendation regarding relaxation in technology has already been provided for in the Government’s import policy. Since the import policy provided for a certain relaxation for meeting emergency requirements of spare parts, it is not considered necessary that any free foreign exchange should be made available and placed at the disposal of the chief executives of the public sector undertakings.”

#### **D. Monitoring by BPE**

5.18 BPE is monitoring as a nodal agency for public sector enterprises in the nature of reviews carried out monthly, quarterly, half-yearly and annually. The monitoring system by its very nature intended to provide warning signal to decision-making authorities in Government. The performance trends are brought to the notice of the Ministers incharge of various ministries so as to enable them to take corrective action wherever warranted.

5.19 Enquired about BPE’s assessment as to what extent its guidelines are being followed by the undertakings, the DG, BPE mentioned :

“About two months back. I had myself taken up this question and since I found that some of the guidelines are not being followed strictly by some of the Ministries. I had sent a note to my colleague the Expenditure Secretary, that when he next calls a meeting of the Financial Advisers, I would like to be present so that I may discuss the manner in which these public sector undertakings are functioning. It is very necessary for them to follow certain guidelines on most of the important matters.”

5.20 The Committee wanted to know whether there is any mechanism in the BPE to watch implementation of the policy guidelines issued by BPE to all public undertakings from time to time and whether the role of BPE is limited only to issue of such guidelines. The DG, BPE replied during evidence :

“Consistant with the autonomy of the public enterprises, BPE watches the compliance of the guidelines by exception. Whenever any thing comes to our notice, we certainly call for a report from them.”

5.21 Enquired whether it would not be possible to devise some mechanism whereby the undertakings furnish information to BPE regularly regarding progress in imlementation of BPE guidelines, the witness assured :

“We will do a very selective exercise. We will try to devise some sort of a proforma and we will also take the administrative Ministries into confidence about it.”

5.22 Asked whether it would not be possible to bring out productivity target of each undertaking every year and the actual achievement there against in the Annual Reports of BPE, the witness said in evidence :

“BPE Annual Survey does give the data on the performance of the company in terms of productivity indices reflected in respect of capacity utilisation, labour productivity etc. This enables comparisons of each enterprise against its own past performance. Recently BPE compiled targets on two important bench marks of capacity utilisation and financial targets of all the central public sector enterprises. This would enable assessment of their performance against pre-determined targets set up by the enterprises in consultation with their administrative Ministries.”

5.23 The Committee on Public Undertakings had in the 46th Report (5th Lok Sabha) had, *inter alia* suggested a separate chapter on productivity in the Public Enterprises Survey of the BPE. While giving evidence before the Committee in February, 1981 *vide* para 128 of 49th Report (1981-82), the DG, BPE assured that the problems of production and productivity would be elaborated in the survey in future. Asked what precisely has been done to comprehensively cover the position, problems and prospects of productivity in the Annual Survey, the DG, BPE said :

“The problems of production and productivity are detailed in three chapters in the annual surveys (1) management of inventories, (2) management of production, and capacity utilisation and (3) industrial relations. These three chapters roughly cover the productivity aspect. In the chapter on capacity utilisation there are more details on steps taken with regard to modernisation and rehabilitation, provision of captive power plant facilities diversification, technology upgradation and maintenance management”.

The witness, however, assured the Committee :

“We will collect them together and call them the productivity part.

5.24 There is a criticism that the results of the BPE survey are not comparable with those of the corporate sector studies carried out by the Reserve Bank of India or other organisations engaged in corporate finances studies because of BPE's adoptions of quite different definitions for a numbers of standard financial concepts and ratios.

5.25 Optimal utilization of man-hours and machine-hours is crucial to attaining desired level of productivity. The data on utilisation of man-hour and machine-hour are, therefore, necessary to have a meaningful management control. Such data in relation to labour-hour utilisation were, however, available from only 63 out of 96 enterprises and in relation to machine-hour utilisation from 58 enterprises. In view of the usefulness of these data in analysing the reasons for under-utilisation and taking steps for improvement, the Committee hope that these will be compiled by all the production undertakings in future. The machine-hour utilisation was less than 75% in 30 out of 58 enterprises and labour utilisation in 14 out of 63 enterprises during 1981-82. The Committee agree that it is not practicable to fix standard optimum level of utilisation covering all types of industries. But, certainly it can be done for each type of industry and this should be done early. Thereafter, an analysis of the cases of enterprises where the utilisation of machine hour and man-hour is very poor should be made for taking such steps for improvement as may be necessary.

5.26 Performance review meetings which are required to be held by the administrative Ministries once in a quarter, if held regularly, will contribute to productivity increase in public undertakings. The committee are disappointed to note that these meetings are not held systematically and as frequently as required. The Committee on Public Undertakings (1981-82) pointed out this lapse. Still there appears to be no improvement in this regard. the Committee have referred to this lacuna in the number of reports presented during the past two years. during their examination of various unpertakiogs, they have come across cases where performance Review meetings were held by the Ministries but B P E and Planning Commission were not associated with such meetings as per guidelines of BPE. Some of the Ministries also did not attach due importance to such meetings. The Committee urge that the administrative Ministries should hold performance Review Meetings in future regularly as per the guidelines of BPE. There should be some fool proof arrangement in the administrative Ministries and the enterprises to take follow-up action on such reviews to make them more meaningful.

5.27 The National Workshop on Higher Production and Productivity held in 1980, pointed out the system and procedures of Government which inhibited productivity improvement. The Government have since taken steps to change some of the systems and procedures. The Committee believe that implementation of those measures will clear the way for productivity growth in public undertakings.

5.28 The Committee regret to note that the guidelines issued by BPE calculated to improve productivity are not strictly followed by the undertakings and feel that the Ministries should be more responsive to the guidelines issued by

BPE from time to time. The Committee trust that the Director General of BPE would take stock of the present position and as assured by him, a mechanism would be devised to review the progress made in implemenation of the guidelines issued by BPE so far and to monitor the progress in this respect as a regular exercise.

5.29 The Committee feel that in the BPE Annual Surveys, the productivity growth figures should be given both in terms of current as well as constant prices alongwith productivity norms or targets to enable realistic appraisal of performance. Further, the overall position of productivity ratios in relation to all production enterprises should be given for over a period of 10 years in order to study the productivity trend in the undertakings.

5.30 There is a criticism that the results of the BPE Surveys are not comparable with those of the Corporate sector studies carried out by the Reserve Bank of India and other organisations engaged in corporate finance studies as the definitions adopted by BPE are quite different for a number of standard financial concepts and ratios. The Committee desire that BPE should look into the substance of this criticism in consultation with RBI and other institutions engaged in corporate finance studies and make such modifications as necessary in their system and methodology of their compilation.

5.31 The Committee are glad to note that in pursuance of their recommendation in the 46th Report (5th Lok Sabha), BPE has brought out a separate chapter on Production and Productivity Management in Manufacturing Enterprises in its Annual Survey. However, they find that this chapter deals with only capacity utilisation. They would like that this Chapter should include other aspects of productivity which are at present scattered at several places in the Annual Survey.

NEW DELHI ;  
*April 29, 1984*  

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*Vaisakha 9, 1906(S)*

MADHUSUDAN VAIRALE,  
*Chairman,*  
*Committee on Public Undertakings.*

## APPENDIX

### *Summary of Conclusions Recommendations of the Committee on Public Undertakings contained in the Report*

Sl. No.	Reference to para No. in the Report	Summary of Conclusions/Recommendations
1	2	3
1	1.45	Achievement of productivity growth in Public Undertakings is of crucial importance to the economy of the country. The public undertakings function in key areas of the industrial sector. Out of the total investment of the order of Rs. 30,000 crores in the Central Public Undertakings at present, about 80% of the investment is accounted for by the production enterprises. The need for productivity improvement in public undertakings received an impetus during the year 1982 when it was declared the "Productivity Year." It is in this context, the Committee went into the examination of productivity performance in Public Undertakings. Their examination has revealed that though there was improvement since 1982, there is substantial scope for further improvement. The Committee have dealt with in this report the areas which require better attention by the Public undertakings and their administrative Ministries/Departments as well as the Bureau of Public Enterprises.
2	1.46	Corporate planning is an essential Management tool <i>inter alia</i> , for improved productivity. A survey conducted by BPE in 1977 revealed that only 70 public enterprises had evolved their Corporate Plans. Some undertakings were not even aware as to what is really meant by Corporate Planning. The Committee are surprised to hear from the Director General, BPE that this sort of ignorance must be continuing even now. The Committee are glad to know that BPE organised a National Seminar in January, 1978 and sponsored 3 courses during 1982-83 for executive



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development with Corporate Planning as a specific subject. Although the responsibility mainly rests with the administrative Ministries to ensure that 'Corporate Plan' is evolved in all undertakings under their control, the Committee feel that BPE should play an active role as recommended by the Fazel Committee by assisting in the preparation and scrutinising the Corporate Plans at least until all the undertakings are on their own able to draw up, in a systematic and regular manner, the Plans with a special thrust on productivity. The Committee hope that as assured by its DG, the BPE will undertake a survey to ascertain the present position in this respect in public undertakings and take suitable action under intimation to the Committee.

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There is need for training and development of existing and new employees in sharpening their skills and orienting their attitudes to productivity as urged by the various non-official organisations. The Committee stress that all undertakings should draw up Corporate training Plans expeditiously as recommended by the Chief Executive Conference and integrate them with the overall Corporate Plans of the enterprises for effective implementation. The Committee note that 62 out of 96 production enterprises have in-house training facilities. The Committee desire that the proposed collection and dissemination of information regarding availability of training facilities among undertakings should be done early so that the small undertakings which do not have the facilities of in-house training may avail of them soon. The services of institutions like National Productivity Council, National Labour Institute and Public Enterprises Centre for Continuing Education should also be effectively utilised by the undertakings in promoting basic attitude and skills in regard to productivity techniques at all levels in the organisations of Public Undertakings.

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The Committee find that only 40 out of 96 production enterprises have a separate unit to look after

productivity aspects. Productivity activities in certain enterprises are reportedly looked after by the production planning or Technical Services Department. A survey conducted by BPE in 1975 revealed the difficulties faced by the management of public undertakings in regard to productivity management. Admittedly, these difficulties are mostly within the control of the management and are mainly due to the fact that the management does not give due importance to the subject. Development of productivity culture is of prime importance and the basic requirement for promotion of productivity in an undertaking. Efforts in this direction are lacking in many undertakings. The Committee, therefore, recommend that there should be a separate productivity cell in each enterprise to institutionalise productivity management as a core activity and this should be headed by an officer fairly at higher level and in big undertakings even by a Director.

5, 1.49

There is need for developing integrated productivity norms on the basis of inter-firm comparisons of productivity. Although, performance criteria models have been finalised recently by 22 administrative Ministries for performance evaluation of the undertakings under their control, it appears that no attempt has been made to evolve realistic norms of productivity to measure the performance thereagainst. The DG, BPE informed the Committee that BPE is taking up some inter-firm comparisons selectively and will attempt indepth studies. The Committee would urge that productivity norms should be evolved for all factors of production for each public undertaking in consultation with NPG, Productivity Boards and BPE.

6 1.50

The Committee recommended that apart from the productivity Boards already set up for 7 industries such Boards should be set up for each of the other major industries such as Steel, Coal, Minerals & Metals, Chemicals & Fertilizers, Petroleum, and Textiles.

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Further, the performance criteria models should be finalised early for the undertakings under the remaining 6 Ministries also. These should include productivity norms to be evolved for more effective and meaningful monitoring and review of the performance for appropriate action for improvement.

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2.48

The Committee are glade to note that their tosi of net turnover to capital employed and gross profit to capital employed the two important indicators of capital productivity, made a significant improvement during the productivity year. The net turnover to capital employed increased from 131% in 1979-80 to 159% in 1981-82. The gross profit to capital employed which worked out to 7.13% on an average during the 10 year period 1971-81 has notably increased to 12.1% in 1981-82 and further to 13.05% in 1982-83. The net turnover to capital employed, however, slightly declined to 157.5% during 1982-83 due to low turn-over of power corporations in the initial stages of operation. An analysis of individual groups of industries shows that this ratio has drastically declined by about 50% in consumer goods industries during 1982-83. This causes serious concern. Further Steel Sector is stated to be facing marketing problems. SAIL which made a profit of Rs. 39 crores in 1981-82 has incurred a loss of Rs. 106 crores in 1982-83 and has further increased its losses to Rs. 256.76 crores (provisional) during the first six months of 1983-84. The Committee would urge that Government should study in depth the problems faced by consumer goods and steel industries with a view to take urgent remedial action. Further, the fall in the ratio of net turn over to capital employed during 1982-83 as compared to 1981-82 in the case of textiles, (179% to 112%) medium and light engineering (118% to 107%) and agro-based (160% to 152%) enterprises is indicative of the need for continuous management alertness to arrest the deteriorating trend in capital productivity.

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2.49

It is commonly believed that public undertakings

are over-capitalized. One of the reasons for large capital in Public Undertakings is the need for greater investment in infrastructural development when the units are set up in backward areas for bringing about a progressive reduction in regional inequalities and promoting balanced growth in the country. In these circumstances, the capital-output ratio of the units is bound to be adverse. A representative of SCOPE urged before the Committee that the element of additionality in capital investment on account of infrastructural development in backward areas should be identified and separated as is done in the case of nationalised industries in U.K. where this additionality is stated to be subsidised. The Committee are not clear as to what extent the effect of this additionality is offset by various concessions given for entrepreneurs setting up industrial units in backward areas. The Committee wish to recall that in their 49th Report (1981-82) they had suggested a critical study of the capital output ratio in each undertaking by the BPE to identify the problems and to take steps to improve the capital efficiency. In reply they had been informed by the BPE that in-depth study of the capital output ratio and other relevant issues would be undertaken on a selective basis. The Committee desire that such in-depth studies should take into account the additionality of investments necessitated in backward areas and also the concessions enjoyed in setting up industrial units in such areas. The Committee would await the results of the studies and the action taken to improve the capital efficiency of enterprises where it is low at present.

Obviously the major reason for the capital productivity being low in public undertakings is the malady of under-utilized capacity. Out of 96 production enterprises, the number of undertakings having capacity utilisation higher than 75% has increased from 36 in 1980-81 to 45 in 1981-82 and further to 55 in 1982-83. However, the Committee regret to note that in many undertakings the capacity utilisation still remains lower than 50% due to power shortages, industrial relations problems, equipment

failures, shortage of raw materials and Management shortcomings. The production loss on account of interruption due to power shortages in steel plants and fertilizer units alone was Rs. 140 crores in 1981-82 and Rs. 258 crores in 1982-83. In this connection, the Committee would like to draw attention to their recommendation made in 92nd Report (7th Lok Sabha) on National Thermal Power Corporation, that the central power generating companies should be empowered to supply power direct to central undertakings wherever necessary and feasible. The Committee hope that with the implementation of this recommendation and the steps proposed to be taken by Government such as investment in balancing facilities and captive power plants as suggested by Cabinet Committee on Infrastructural Facilities, periodical review and follow-up action by Co-ordination Committee, the capacity utilisation in undertakings will further improve.

- 11      2.51      Incidentally, the Committee wish to point out that as many as 18 out of 96 undertakings have not furnished information to the Committee regarding capacity utilisation for the year 1979-80, 12 undertakings for the year 1980-81 and 11 for 1981-82. The Committee desire that the reasons for not furnishing the information by these undertakings should be ascertained and if capacity utilisation in these undertakings is found low necessary remedial steps should be taken early.

- 12      2.52      Heavy inventory represents avoidable blocked up capital. The Committee find that position in this respect in certain undertakings is very unsatisfactory. Notwithstanding the fact that the overall inventory position in public undertakings has gradually improved from 183 days of production at the end of 1968-69 to 101 days at the end of 1982-83, there are as many as 14 undertakings where the inventory level is over 365 days and 27 other undertakings where it is over 200 days. In Tunga-bhadra Steel Products Ltd. it is as high as 1160 days, Apparently, there is lack of proper inventory management

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and control in these undertakings. The Committee are particularly concerned over the accumulation of finished goods inventory. They desire that there should be an integrated approach to marketing and inventory management. The feasibility of combining these functions at the functional directors' level in the Boards of Public Undertakings may be accordingly considered. Further, decisions should be taken without further delay on the recommendations made in April 1982 by the Expert Committee on Public Enterprises regarding material and maintenance management, for speedy implementation.

13

2.53

Introduction of standard costing techniques and integrated cost and financial accounting system to allow of usage and rate variance analysis are essential to control waste of material and economise on cost. Further, value analysis by interdisciplinary team of executives could result in economy and better use of resources to attain increased productivity of capital. The Committee regret to note that only 27 out of 96 production undertakings have introduced standard costing system and 33 have a system of value analysis. Although BPE issued guidelines in this regard as far back as in 1968, no follow up action appears to have been taken to ensure that these important systems are introduced in all the production enterprises. According to the Director General National Productivity Council there has been no deliberate attempt on the part of the undertaking to contain cost of production. It is needless to point out that cost effectiveness and judicious use of resources is a must for the success of any industry. The Committee hope that there would be no more laxity in introducing these vital system in the interest of productivity and cost control.

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2.54

Technology is an important factor of production contributing to increased productivity. In-house R and D could be introduced in areas like product development, product diversification, energy conservation, optimising production capacity, improving the quality and consump-

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tion of inputs, adoption of new technology, technology upgradation and modernisation. According to the information made available to the Committee only 62 undertakings have an in-house R and D unit. In many undertakings the awareness of the importance of R and D is lacking. The Committee hope that suitable measures will be taken to promote R and D activities in these undertakings. They suggest that the desirability of establishing an apex body for each sector of public undertakings should be studied with a view to evolving common approach to basic problems of allied undertakings.

15 3.23

The Committee's examination of labour productivity in public undertakings has revealed that value added per man-month has been not only low but it is even less than the average monthly emoluments per employee in as many as 19 out of 96 undertakings. Such undertakings cannot but be sick and they are sick. The Committee require that Government should critically review the working of these undertakings and launch schemes for their revival and take emergent measures to put them on sound footing.

16 3.24

Productivity is a definite casualty in an organisation where there is too much of surplus labour. At the instance of the Committee on Public Undertakings, BPE issued instructions in 1971 to review the existing manpower and the organisation machinery in public undertakings for taking effective steps to reduce surpluses at least over a period. However, an assessment made by BPE in 1978 showed that 46 out of 163 undertakings had surplus staff of varying magnitude. Productivity studies undertaken by NPC in some undertakings has shown an excess of 10 to 15% hands in each organisation. Thus no serious efforts appear to have been made to adjust the manpower according to requirement and productively deploy the surplus manpower. One of the reasons for emergence of surplus staff is stated to be indiscriminate and improper recruitment in the initial stages and elaborate and unproductive

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working methods and systems adopted in the organisations. These factors can certainly be taken care of by management with proper planning and industrial engineering. The matter of transfer of surplus labour and staff from one undertaking to another can be seriously considered by the management of the Companies in particular and generally by the administrative Ministries, having more than one undertaking in order to relieve the situation, The Committee would like to be informed of the measures taken by Government as a result of its findings in 1978 to contain and productively utilise the surplus labour in undertakings and progress made so far as a result thereof.

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3.25

Productivity linked incentive schemes if devised carefully will yield good results. The Committee find that there are a large number of undertakings which have not introduced any such scheme and on the other hand in many of the undertakings which already have a scheme, the incentive appears to have degenerated into additional wage, having been linked to production even below the threshold level. It is not clear whether BPE has issued any guideline in this regard. The Committee would urge that the administrative Ministries should review in consultation with BPE the productivity incentive scheme already in operation in the undertakings under their control in order to make it scientific and result-oriented and also ensure that such a modified scheme is introduced in all undertakings. The Committee regret to note that the undertakings have not shown any enthusiasm to link wages including DA and bonus to productivity as recommended by them in their 28th Report (1981-82) Although some sort of clause relating to productivity is incorporated in the wage agreements, this is not actually put into practice. The Committee hope that the administrative Ministries will ensure effective implementation of the Committee's recommendation in its true spirit in future.

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3.26

The Committee regret to note that the scheme of workers participation started in 1975 at shop floor and plant level with a view to improving labour productivity



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has not yet taken roots in public undertakings, Only 57 undertakings have so far introduced the scheme. Even among these, in many undertakings the scheme has largely remained ineffective for want of proper acceptance of the scheme. There is scope for improvement in the periodicity and the scope of meetings between workers and management as revealed by the survey carried out by BPE in 1982. The Committee would urge that effective steps should be taken to bridge these gaps. The Committee also recommend that the experiment of Board level participation if found to yield desired results should be introduced in all undertakings early.

19 3.27

The total number of mandays lost in 76 production enterprises during 1982-83 was 36,11,837 which resulted in a production loss of Rs. 846 crores. One of the major reasons for the mandays lost is stated to be industrial unrest. NPC has pointed out some problem areas in this connection. The Committee desire that remedial measures to mitigate these problems should be taken expeditiously in order to improve the industrial relations climate in public undertakings.

20 4.24

There is admittedly substantial scope for augmenting productivity in public undertakings by better management even granting the environmental and infrastructural constraints faced by them. The sample studies conducted by NPC reportedly show that there is scope for achieving energy conservation by 7 to 25%, materials conservation by 4 to 15% and also considerable scope for bringing down time of machines by better management. There is, however, stated to be a need for greater role clarity, performance standards and objective measurements at the top level for improving the managerial productivity. The Committee hope that the performance criteria models evolved by administrative Ministries recently will fulfil this requirement to some extent. The Committee note the suggestions made by SCOPE for bringing about healthy corporate management style and the suggestions made in the Action Plans

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		for improvement in management techniques. The Committee trust that these suggestions will be implemented in right earnest keeping in view the need to improve managerial productivity in public undertakings.
21	4.25	The Committee have been informed that the reward and punishment system in public undertakings is neither objective nor timely. The Committee would expect improvement in this regard after a critical study by the Boards of Management and administrative Ministries/ Departments.
22	4.26	Succession planning to top posts in public undertakings appears to be inadequate. According to SCOPE at one point of time nearly 35 posts of Chairman or Managing Director of public undertakings remained vacant over a long period. As on 31.12.1983 the number of posts of Chief Executives vacant was 13. Long delay in making top appointments could result in lack of direction and control in the enterprises. The Committee would urge that succession planning should be done well in time to fill up the posts of top executives as nearly 60% of these posts are expected to fall vacant during the next three years. The Committee are not convinced of the reasons for changing the earlier practice of giving 5-years tenure to top executives. They desire that Government should re-examine this issue having regard to the need to give a reasonable period of tenure to top executives for efficient functioning of the undertakings and in order to maintain continuity in implementation of various schemes and plans. Frequent changes in incumbents of Chief Executives is detrimental to efficient performance by undertakings.
23	5.25	Optimal utilization of man hours and machine hours is crucial to attaining desired level of productivity. The data on utilisation of man-hour and machine-hour are, therefore, necessary to have a meaningful management control. Such data in relation to labour-hour utilisation were, however, available from only 63 out of

96 enterprises and in relation to machine-hour utilisation from 58 enterprises. In view of the usefulness of these data in analysing the reasons for under-utilisation and taking steps for improvement, the Committee hope that these will be compiled by all the production undertakings in future. The machine-hour utilisation was less than 75% in 30 out of 58 enterprises and labour utilisation in 14 out of 63 enterprises during 1981-82. The Committee agree that it is not practicable to fix standard optimum level of utilisation covering all types of industries. But, certainly it can be done for each type of industry and this should be done early. Thereafter, an analysis of the cases of enterprises where the utilisation of machine-hour and man-hour is very poor should be made for taking such steps for improvement as may be necessary.

24      5.26

Performance review meetings which are required to be held by the administrative Ministries ones in a quarter, if held regularly, will contribute to productivity increase in public undertakings. The Committee are disappointed to note that these meetings are not held systematically and as frequently as required. The Committee on Public Undertakings (1981-82) pointed out this lapse. Still there appears to be no improvement in this regard. The Committee have referred to this lacuna in the number of reports presented during the past two years. During their examination of various undertakings, they have come across cases where performance Review meetings were held by the Ministries but BPE and Planning Commission were not associated with such meetings as per guidelines of BPE. Some of the Ministries also did not attach due importance to such meetings. The Committee urge that the administrative Ministries should hold performance Review Meetings in future regularly as per the guidelines of BPE. There should be some fool proof arrangement in the administrative Ministries and the enterprises to take follow-up action on such review to make them more meaningful.

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| 25 | 5.27 | <p>The National Workshop on Higher Production and Productivity held in 1980, pointed out the system and procedures of Government which inhibited productivity improvement. The Government have since taken step to change some of the systems and procedures. The Committee believe that implementation of those measures will clear the way for productivity growth in public undertakings.</p>   |
| 26 | 5.28 | <p>The Committee regret to note that the guidelines issued by BPE calculated to improve productivity are not strictly followed by the undertakings and feel that the Ministries should be more responsive to the guidelines issued by BPE from time to time. The Committee trust that the Director General of BPE would take stock of the present position and as assured by him, a mechanism would be devised to review the progress made in implementation of the guidelines issued by BPE so far and to monitor the progress in this respect as a regular exercise.</p>   |
| 27 | 5.29 | <p>The Committee feel that in the BPE Annual Surveys, the productivity growth figures should be given both in terms of current as well as constant prices alongwith productivity norms or targets to enable realistic appraisal of performance. Further, the overall position of productivity ratios in relation to all production enterprises should be given for over a period of 10 years in order to study the productivity trend in the undertakings.</p>   |
| 28 | 5.30 | <p>There is a criticism that the results of the BPE Surveys are not comparable with those of the Corporate sector studies carried out by the Reserve Bank of India and other organisations engaged in corporate finance studies as the definitions adopted by BPE are quite different for a number of standard financial concepts and ratios. The Committee desire that BPE should look into the substance of this criticism in consultation with RBI and other institutions engaged in corporate finance studies and make such modifications as necessary in their system and methodology of their compilation.</p> |

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The Committee are glad to note that in pursuance of their recommendation in the 46th Report (5th Lok Sabha), BPE has brought out a separate chapter on Production and Productivity Management in Manufacturing Enterprises in its Annual Survey. However, they find that this chapter deals with only capacity utilisation. They would like that this Chapter should include other aspects of productivity which are at present scattered at several places in the Annual Survey.

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