16th August, 1968

3068

Dear friend,

Since we had a brief discussion at the meeting of our Party on 6th August regarding the abolition of the Managing Agency system proposed in the Companies (Amendment) Bill introduced by the Congress Government in Parliament, I have come across an objective and balanced presentation of the problems that would be posed by such a move in the course of a recent statement made by Mr.J.R.D. Tata. I thought you would be interested in seeing it and I am, therefore, enclosing the relevant extract.

We in the Swatantra Party have to judge this issue against the background of our own fundamental and basic principle of maximum competition and minimum social regulation. We have to consider in what ways the proposed banning of the Managing Agency form of company management impinges on this principle. On an examination of the matter, it becomes very clear that this is one more example of the excessive regulation and control against which we have been protesting during the past decade. Management by Managing Agents is an alternative form of management to that by a Managing Director. In other words, it is a domestic matter pertaining to a company which should be left to the free choice of those who invest their resources. Is there any reason why an investor should not be free to appoint a group of professional managers as Managing Agents in place of a Managing Director if he considers it to be in the interests of the enterprise?

On the other hand, this kind of interference certainly limits freedom of competition in the same way that the objectionable clauses of the Monopolies and Restrictive Trade Practices Bill, now before a Select Committee, do under cover of objecting to the concentration of economic power. Our Party has already called upon Swatantra Members of Parliament to fight what our Central Parliamentary Board has described as that "pernicious Bill." Our opposition to the objectionable features of that Bill applies equally to the attempt at abolition of Managing Agencies. Both these moves are actuated by the same motive, which is not to fight the concentration of power but to remove obstacles in the way of the only concentration of power which exists in the country, namely, that in the hands of the Congress Government and its accomplices among corrupt bureaucrats and businessmen.

If this attempted legislation were to be enacted, the only result would be to disrupt our organised industries, add to the cost of industrial products, weaken India's capacity to compete in the world's markets and leave the Government occupying unchallenged its position on "the commanding heights" with small and weak enterprises below at its mercy. The effects of this on the political structure of the country are not difficult to imagine.

Yours truly,

M R Masani

(M. R. MASANI)

Extract from the statement made by Mr. J.R.D. Tata to the Shareholders as Chairman of the Tata Iron & Steel Company Limited on 15th July 1968

I should now like to refer to the impending abolition by legislation of the Managing Agency system. From all accounts and from the fact that a Bill for that purpose has been introduced in Parliament, it would seem that Government are now determined to abolish the system altogether by April 1970. It is for you, as owners of this Company, to judge whether you will benefit or not from this drastic measure. Although my own judgment may be considered prejudiced, I do believe that experience will ultimately show that Government destroyed a form of management which, administered as it should be, is a highly efficient one, especially suited to India at its present stage of development, and in the real interests of managed companies and their shareholders. Like any other system - business, political or social - created and run by human beings, the Managing Agency system is liable to be abused for selfish purposes and was, in fact, so abused in some instances. But I do not know of any form of management, whether in the public or private sector, which is not open to dishonest practices or corruption if those at the helm are so inclined. The record clearly shows that in India, as in other countries, dishonest or nepotic management is not the exclusive preserve of the Managing Agency system. In fact, management by a firm of long standing and proved integrity is obviously less prone to suffer from malpractices than management by a succession of individual chief executives or ever changing boards of executive directors.

The Department of Company Law Administration has itself claimed that the drastic regulation by the Companies Act, 1956, has purged the system of much of the abuses noticed before. Further, it is not possible under present conditions and in the state of existing law for managing agents to operate as a hereditary office. The transition to a professional type of organization which was achieved long ago by your own Managing Agents has become more pronounced with the advent of changes in management techniques and systems all over the world. Managing agency houses have not been slow to respond to the demands and pressures of modern and up-to-date methods of management.

At our present stage of development, there is not only a crying need for rapid industrial expansion and diversification, but also a severe dearth of experienced management, inevitable in a rapidly expanding economy. The right type of managing agency firm, consisting preponderantly of experts in various fields of management, technology and administration, clearly provides a combination of managerial resources and experience which cannot be matched by any other form of company management. This applies particularly to new ventures into new fields. Finally, there is the crucial question of confidence, an essential and elusive ingredient in the task of raising fresh capital in a country like ours where the investor is notoriously shy and prefers to entrust his money to people whom he knows by name and reputation.

One of the main reasons responsible for the decision to destroy the Managing Agency system altogether seems to lie in the belief expressed in the statement of objects and reasons of the Bill, and the argument advanced, amongst others, by the Monopolies Commission, that the system has hastened the process of concentration of wealth and economic power in the country. As regards wealth, it is obvious that under our punitive tax laws on wealth and income the accumulation of personal wealth is possible only through tax evasion for which there is obviously no special scope in the Managing Agency system. So far as concentration of economic power is concerned, having worked as I have for over forty years under the system, I have never been able to understand this argument nor have I ever been conscious of having acquired any special economic power denied to others in business or industry not operated under the Managing Agency system. In fact, under the heavily regulated regime of control and licensing prevailing in our country since Independence, such economic power has been transferred wholly to Government officials and Minsters. It is in any case difficult to see how transferring management from a Managing Agent to a Managing Director or an Executive Chairman will make any difference in the exercise of economic power. Lurking in the minds of those responsible for this oppressive measure, is the fear and suspicion of bigness in private enterprise. While there is of course no doubt that small scale and medium industries play a vital part in the economy of any country, and in fact form the vast majority of industrial enterprises, the fact remains that in most heavy and mass production industries, efficiency, technological progress and low costs are largely proportionate to size. In such industries, only the big companies can afford the costly research departments and computers, the elaborate modern tools of management, the deployment of a host of experts specialised in individual fields of corporate management, all of which contribute to efficiency, low costs and maximum competitiveness. This is realised throughout the world, but in our country Government and many of our politicians prefer to ignore realities and to pursue the dream of an Utopian industrial society in which small Indian companies, weak in material and human resources, successfully compete with the giants of the world and capture their markets from them.

F.