Managing Agency before *Lok Sabha*

FROM the discussion on the report of the Joint Select Committee on the Company's Bill, that has taken place so far in the Lok Sabha, Including the opening speech of the Finance Minister, It is obvious that the controversial clauses relating to managing agencies are going to steal the debate. There appears to be general agreement that the conduct of managing agents has not been exemplary. No one has so far taken up the cudgels on their behalf, and defended their role as providers of finance and managerial talent to industry. While the deficiencies of the managing agency system are recognised, there is difference of opinion on whether the system sholud be ended or whether the deficiencies should be eliminated so as to improve the .system and make it more useful. While it is difficult to foresee the final outcome of the debate, one would not be wrong In assuming that, at least for some time to come, no drastic step, calculated to end the system, would be taken.

Joint Select Committee

T HE reform of company law was taken up for consideration in 1946, as it was felt that all was not well with company management. Though nearly a decade has passed since then and a number of changes have taken place in the country's economic structure, the basic aim of reform has remained the same, viz. that of "encouraging and reasonably safeguarding private investments in fields which are not marked out for the public sector," and it was with this end In view that the Companies Bill was put forward in 1953. The Joint Select Committee has made some drastic changes in the Bill, particularly in the clause relating to the managing agencies, but there is obviously scope for more changes, judging from the readiness with which Government yielded to the criticism regarding absence of any provision in the Bill to prevent relatives of managing agents being appointed as selling or buying agents. It may be argued, however, that the basic pattern of the Bill remains substantially unaltered, as more than 70 per cent of the 649 clause Bill has not been touched at all by the Joint Select Committee, Such a view would be misleading In the extreme, for it is unusual for a Bill to undergo such radical change in the Committee stage and still more unusual for Government to accept such changes.

The most controversial clauses are those relating to the managing agencies. Clause 323 gives power to the Central Government to notify that companies engaged, wholly or in part, in any specified industry or business, shall have no managing agents. In effect, this means that the Government will have blanket control over the form of corporate management in the private industrial sector. When any notified industry has managing agents, the latter shall cease to be so within three years from the date of notification or 15th August 1960, whichever is later.

An even more controversial clause in the Bill, is 329, which lays down that the term of the existing managing agents should expire on 15th August 1960, except in the case of re-appointments, which are, however, subject to Government's approval.

Another important stipulation made by the Select Committee is that relating to the remuneration of managing agents in those businesses where they are permitted to continue. While the original Bill (Clause 347) had provided a ceiling on the remu- of managing agents (i.e. not more than 10 per cent of net profits), it did not impose any restriction either on the total remuneration of a director or on the managerial remuneration of a company. The Select Committee has, however, changed this and laid down that not. more than eleven per cent of net profits may be utilised for all types of remuneration to top management- managing agents, managing directors or managers. It is further provided that where a company makes no profit or earns inadequate profit, the maximum remuneration for all managerial staff should be Rs. 50,000 (Clauses 197 and 352). The Finance Minister, however, has agreed to qualify this provision in a subsequent amendment.

To Mend or to End ?

SOME of the other provisions relating to managing agencies are those that provide (a) that a managing agency company cannot itself have a managing agent (324); (b) that all appointments and re-appointments of managing agents are to be approved by the Central Government (325 and 327); (c) that no person may be a managing agent of more than ten companies after 15th August, 1960 (331); and (d) that managing agency is not heritable.

The discussion over the Select Committee's report in the legislature raises three main questions: (1) whether the managing agencies should be mended or ended, (2) what is the place of managing agents in the present corporate financial picture, and (3) are managing agents receiving remuneration out of all proportion to the contribution they make, and at the cost of the industries concerned?

As regards the future of the managing agency system, the trend appears to be against outright abolition. The Prime Minister himself has expressed the view that there is no point in fixing a target date for abolition, in view of the considerations arising out of the Second Plan. The lurking fear that the sudden termination of the system might disorganise industrial management and retard industrial development has tempered the critics.

Financial Contribution and Remuneration

FUNDS that managing agents provide for industry do not appear to be as important now as they were once. A study of Company Finances 1950-52, made by the Reserve Bank, goes to show that three-fourths of industrial finance is obtained from the internal resources of the industries themselves. Thus, for 746 public limited companies studied by the Reserve Bank, out of total capital resources of about Rs. 151 crores, during 1950-52, internal sources provided as much as Rs. 116 crores as against Rs. 35 crores obtained from external sources; of the latter, share capital and borrowings from banks provided Rs. 7.3 crores and Rs. 11.4 crores respectively. Managing agents do not appear to figure prominently in this scheme of corporate finance, their contribution being confined to the personal guarantees given by their directors, the value of which cannot be assessed from the small share of bank loans in the capital resources of the company. The managing agency system, however, it would appear, has to be valued as a source of corporate managerial talent rather than of finance.

As regards the remuneration received by managing agents, the ceiling (11. per cent of net profits) fixed by the Select Committee is a little less, but not much less, than what perhaps they are getting now. The study of the finances of 492 public limited companies made by the Taxation Enquiry Commission, for instance, shows that all forms of remuneration to managing agents in the period 1946-1951, amounted to about 14 per cent of profits before tax (including this remuneration). The Reserve Bank study of company finances referred to above, also shows that (for the 746 companies whose? finances were studied) in the period 1950-52, managing agents' remuneration amounted to about 14 per cent of gross profits (after providing for depreciation). These figures are of course, derived from the published accounts of companies; the Actual size of managing agency remuneration may well be different, but it would be much more.

Bhoodan — Collection But no Distribution

THE figures for land distribution under the Bhoodan Movement made public recently brings to light how organisational inadequacy and lack of trained personnel hamper the progress of an otherwise inspiring movement. In an earlier issue, the progress of land collection was commented upon. As against the target of 5 crores of acres by the end of 1957, only 38,26,810 acres have been collected so far from 442,722 donors. Only 193,275 acres out of 38,25,810 acres received as gifts, has been distributed so far to 52,134 landless families. That means that 95 per cent of the land collected is still lying with the donors. It is true that unless necessary legislative measures are brought forward by the State Government, transfer of title deeds would be difficult to effect.

But the delay cannot be attributed to legal difficulties alone. Even in a State like Bihar which has enacted the required land legislation, distribution does not appear to have made much headway. Out of the 23 lakhs of acres collected in Bihar, only about 3 lakh acres have been distributed. Moreover, as some portion of the collected lands, however small, has already been distributed in almost all the States, legal difficulties of transfer cannot be the only reason for the delay. It is quite likely that some of the lands donated may be cultivable waste and will require large initial investment to bring them under the plough. The landless labourers for whom lands are collected will not be in a position to meet such initial expenditure. The lack of able lieutenants and organisers around Vinoba must largely explain this failure in this crucial part of the Movement.