C. P. U. No. 449

COMMITTEE ON PUBLIC UNDERTAKINGS (1981-82)

SEVENTH LOK SABHA

TWENTY-NINTH REPORT

ON

JESSOP & COMPANY LTD.—EMPLOYMENT AND OVERHEADS

(MINISTRY OF INDUSTRY—DEPARTMENT OF HEAVY INDUSTRY)

Presented to Lok Sabha on 24 December, 1981

and

Laid in Rajya Sabha on 24 December, 1981

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STUDY GROUP-III—BHARAT HEAVY ELECTRICALS LTD., ENGINEERING PROJECTS (I) LTD., AND CERTAIN ASPECTS OF HINDUSTAN MACHINE TOOLS LTD., JESSOP & CO. LTD., INDIAN RAILWAY CONSTRUCTION CO. LTD.

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2. Shri Nagina Rai—*Alternate Convener*
3. Shri S. M. Krishna
4. Shri Chandradeo Prasad Verma
5. Shri Swami Dinesh Chandra

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this Twenty Ninth Report on Jessop & Co. Ltd.—Employment and Overheads.

2. The Committee took evidence of the representatives of Jessop & Co. Ltd. on 3 August, 1981 and Ministry of Industry (Department of Heavy Industry) on 5 August, 1981.

3. The Committee considered and adopted the Report at their sitting held on 21 December, 1981.

4. The Committee wish to express their thanks to the Ministry of Industry (Department of Heavy Industry) and Jessop & Co. Ltd. for placing before them the material and information they wanted in connection with the examination of the subject. They wish to thank in particular the representatives of the Ministry of Industry (Department of Heavy Industry) and Jessop & Co. Ltd. who gave evidence and placed their considered views before the Committee.

NEW DELHI;
December 23, 1981
Pausa 2, 1903 (*S*).

BANSI LAL,
Chairman,
Committee on Public Undertakings.

PART I

BACKGROUND ANALYSIS

The management of Jessop & Company Ltd. established in 1788 was initially taken over by the Government of India in May, 1958 under the provision of the Industries (Development and Regulation) Act, 1951. The company was finally taken over as a Government company in terms of Section 617 of the Companies Act with effect from 1st April, 1973. The company is engaged in the manufacture of cranes, Sluice Gates, Road Rollers, Metre Gauge Coaches, Railway Wagons, structural and other engineering items. The company has diversified its lines of manufacture and has taken up manufacture of new items like Aerial Ropeway, Crawler tractors, Paper making machinery, Cold Saw Machines, Dumpers, Mining Equipments etc. The company's workshops are situated in Dum Dum near Calcutta. The company has a captive foundry at Durgapur.

A. Working Results

2. According to the data furnished by the Ministry of Industry (Department of Heavy Industry) the performance of the Jessop & Co. since its take over in April, 1973 was as under:—

(Rs. crores)

Year	Paid up capital	Profit/ Loss Budgeted	Before tax Actual	Cumulative Loss
1973-74	2·24	(—)3·38	(—)4·42	14·29
1974-75	2·24	(—)1·72	(+)0·91	13·38
1975-76	18·94	(—)1·18	(+)0·19	13·19
1976-77	21·44	(+)2·20	(+)0·71	12·48
1977-78	24·56	(—)2·68	(—)5·03	17·51
1978-79	24·56	(—)6·31	(—)9·13	26·64
1979-80	25·99	(—)7·85	(—)9·31	35·95

3. The Committee desired to know why the Company which started earning profits since 1974-75 had again slided back to losses

from the year 1977-78. The Company explained the losses as follows:—

"Due to lack of orders and being saddled with nigh overheads and permanent strength, working capital got depleted. When orders started coming power situation deteriorated and there was general shortage of working capital. Productivity did not improve. Accumulation of all this resulted in poor turn out. To this may be added the increase in cost of financing and generally low margin in the orders obtained against stiff competition."

B. Overheads

4. The Committee desired to know the overhead expenditure of the Company during each of the last 5 years and its percentage to the cost of production. In reply, the Company furnished the following statement:—

Sl. No.	Item of Expenses	1976-77	1977-78 (Rs. lakhs)	1978-79	1979-80	1980-81 (Provisional)
1	Consumption of Stores & Spares	123·37	139·04	139·53	156·13	170·55
2	Power & Fuel	54.21	49.65	56.11	62.17	84.79
3	Rent	3·56	5·52	6·73	5·97	6·66
4	Freight	31·58	37·55	23·77	38·39	18·79
5	Repairs to Building P&M .	80·63	77·45	78·53	79·78	85·24
6	Salary, Wages Bonus .	827·74	878·34	862·45	966·79	1099·26
7	Interest .	854·90	480·92	498·96	644·98	850·90
8	Depreciation .	74·72	91·29	93·78	95·93	102·55
9	Others .	148·85	137·52	142·62	127;65	136·75
10	Total O. H. Expenses	1799·56	1997·28	1902·48	2177·79	2555·49
11	Cost of Production	3998·42	4842·35	3745·74	4708·83	5075·53
12	% of overhead expenses to Cost of Production . .	45·01	39·18	50·79	46·25	50·35
13	Value of Production . .	4063·00	4339·14	2832·81	3778·12	3838·78

5. The break-up of the overheads into administrative overheads and factory overheads is stated by the Company to be as follows:

Year	Administrative overheads	Factory overheads	Total
1976-77 .	678·76	1120·80	1799·56
1977-78 .	675·13	1222·15	1897·28
1978-79 .	726·50	1175·98	1902·48
1979-80 .	870·20	1307·59	2177·79
1980-81	1102·79	1452·70	2555·49

6. The Management attributed the rise in overhead expenses to the following factors:—

(i) increase in power cost is mainly due to increase in the rate of electricity and fuel.

(ii) increase in salary and wages is due to increase in Dearness Allowance, annual increments and revision of pay scales and other fringe benefits;

(iii) increase in interest is due to filling the gap in working capital requirements on account of loss;

(iv) Depreciation has increased due to increase in fixed assets.

7. Asked if there was no scope for reduction of overheads, the Company intimated that administrative & factory overheads can be reduced by controlling cost of production, inputs being available on time and in correct sequence, correct work culture and high productivity.

8. The Committee enquired if the Company followed standard costing system. Company intimated that it had "not been able to follow standard costing system as each job is practically different." The Company was however, planning to introduce this system in its Road Plant Division.

9. According to the Company's Annual Report for the year 1979-80 the level of production was much below, the break even point of Rs. 60 crores (excluding interest on Government loan). The Company, intimated that this level of production was likely to be achieved by 1982-83.

10. The Committee wanted to know if the Company had made any inter-firm comparison of its cost structure. In reply, the Company furnished the following data for the year 1979-80:—

Item of overhead Expenses	Jessop %	Bokaro Steel Ltd. %	HMT %	BHEL %
(1) Material .	44·3	48	59	56
(2) Salaries/Wages .	31	28	20	13
(3) Interest .	15·21	8·15	5·22	5·74
(4) Depreciation . . .	2·25	1·24	5·49	3·21
(5) Manufacturing & General . . .	7·4	14·7	10·17	20·61

Working Capital

11. The working capital at the close of the three years ending 31 March, 1980 amounted to Rs. 30.22 crores, Rs. 22.51 crores and Rs. 28.05 crores respectively and represented 7.65, 7.54 and 7.30 months' value of production at cost excluding depreciation during these years. The working capital as on 31 March, 1980 was financed through Cash Credit from Bank (Rs. 22.53 crores) and internal and other resources (Rs. 5.52 crores).

12. The Committee enquired whether Government had reviewed working capital requirements of the company and if so when. In reply, the Ministry of Industry (Department of Heavy Industry) intimated:

> "The company's working capital requirement was reviewed about 5 years back with reference to the level of production of Rs. 35 crores. The projected production for the year 1980-81 is Rs. 50 crores. This increase by Rs. 15 crores needs substantial doses of working capital to the tune of Rs. 7.5 crores. In the past the company had engaged an outside consultant to assess the requirements of working capital so that it could form a basis for the bankers for additional advances and for the Government to provide financial assistance towards working capital. On the suggestion of State Bank of India that such an exercise should be done again with the help of an outside consultant, it is proposed to engage one for an independent appraisal of requirement of working capital, to enable the Government take a view on this matter."

13. Asked if the aforesaid exercise has since been completed and if so what was its outcome, the Company stated (8 August, 1981) in a note:—

> "Batliboi has just finished a study on requirement of working capital. It has been submitted to the Government and is under examination."

14. The Committee enquired whether it would not have been better had Government advanced money to the company to remove the working capital constraints at the beginning of the year instead of recouping the cash losses by way of loans at the end of the year. In reply, a representative of the Ministry of Industry (Department of Heavy Industry) said in evidence:—

> "We have endeavoured to remove it. Take the year 1981-82, the Budget document. For Jessop & Company under Non-Plan, we have provided for a total assistance of Rs. 16.72 crores, of which Rs. 2.72 crores is on account of working capital. We have taken similar steps every year."

15. The Committee enquired that as the deficit revenue budgets of the company come up before the administrative Ministry for approval, how the Ministry could explain the consistent under-estimation of losses. The representative of the Ministry of Industry (Department of Heavy Industry) explained that this was due to the tendency on the part of public undertakings not to own the fact that they are going to make a heavy loss. They underestimate their losses.

16. The Committee pointed out that according to the Annual Report for the year 1979-80, the Company had to bear interest charges amounting to Rs. 6.45 crores (Rs. 8.5 crores in 1980-81) which also included in rest charges on loans necessitated by cash losses. Asked if Government was satisfied with the existing system, the representative of the Department expressed the following view:—

> "The system of funding some of the Companies which are incurring losses by giving them money by way of loans and over burdening them again with interest on the loans is not a very satisfactory system. On this we have produced some notes internally. This is under examination."

Inventory holding

17. The working capital of the company is largely locked up in inventories and sundry debtors. As stated in the company's Annual Report for 1979-80 the inventory of finished goods, raw materials and works stock and works in progress as at the end of 1979-80 was Rs. 38.26 crores, as compared to Rs. 20.83 crores in 1976-77 and Rs. 27.60 crores in 1977-78. The stock of raw materials and works stock at the end of 1979-80 represented 12.17 months' consumption for production, as compared to 7.48 months in 1978-79 and 3.93 months in 1977-78.

18. The Committee enquired whether the company had fixed any norms for the inventory and if so how the actual position compared with the norms. The following reply was furnished (August 1981) by the company in this regard:

> "Batliboi's study has recommended certain norms. These are under study......Non-availability of steel in time, tailor made nature of each job, mismatching of supply of steel with other bought out or imported items sometimes forces us to keep a higher inventory."

19. The Committee desired to know whether Government had reviewed the company's level of inventory. In reply, Ministry of Industry intimated that at a performance review meeting held by the Secretary on 11 March 1980 the company was advised that the inventory should be brought down. Thereafter in August, 1980 the Bureau of Public Enterprises had, in consultation with the Ministry of Industry, selected Jessop & Co. for indepth study by the Committee on inventory control and questionnaire prepared by the Committee had been sent to Jessop & Co. for helping in conducting the Study.

20. Asked what follow up action, if any, was taken, by Government on the advice given in March, 1980 the representative of the Department of Heavy Industry said:

> "We have been making out in the Board that the inventories are very high, the sundry debtors position is very high and if they realise it, then some of the losses would be reduced."

21. As regards the study undertaken by the BPE, the witness stated (August, 1981) "It started in August, 1980. It has not yet been completed."

Sundry Debtors

22. The value of Book Debts and Sales for the last 5 years was as under:—

Year	Total Book Debts		Sales	Percentage of debts to sales
	Considered good	Considered doubtful		
1975-76	13·07	0·36	37·49	35·83
1976-77	16·93	0·96	47·87	37·38
1977-78	17·91	0·96	42·13	44·80
1978-79	20·26	1·74	36·05	61·02
1979-80	18·29	2·03	33·34	60·93

23. The sundry debtors represented about 5.38 months' turnover in 1977-78, 7.32 months in 1978-79 and 7.31 months in 1979-80. As on 31-3-1980, debts outstanding for 3 years and more were Rs. 2.26 crores in respect of Government parties and Rs. 1.25 crores in respect of private parties. Government parties from whom these debts are due are stated to be Naval Dockyard Vizag, Cochin Shipyard, Bombay and Calcutta ports etc. Debts are stated to relate mostly to disputed items.

24. The Committee pointed out that if outstandings are to the extent of 61 per cent of sales, it impinges on the liquidity of the company. In reply the Chairman and M.D. of the Company agreed by saying "That is perfectly all right." Asked about the latest position, the witness stated that the company had been able to bring the sundry debts from 61 per cent in 1979-80 to about 50 per cent in 1980-81.

25. The Committee enquired what credit policy was being followed by the company. The company intimated that while finalising contracts, the company tried to get from their buyers advance ranging from 10 to 20 per cent. 70 to 80 per cent of the payment was received on delivery, balance was payable on completion of erection and commissioning. It was the recovery of the balance 5 to 10 per cent and the escalation claims that took time and led to rise in the sundry debts.

26. The Committee wanted to know if the company had been charging interest on outstandings. The Company stated:

> "Interest on late payment are asked for but no firm pays. Customers being mostly Government agencies, realisation at times becomes difficult and arbitration has to be resorted to......Although interest on dues due to late payment is stipulated in certain large contracts. Customers seldom pay this and we also do not go for litigation for the same, for possibility of future business relations."

C. Employment & Productivity

27. The strength of employees of the Company in various categories during each of the last 5 years (1976-77 to 1980-81) as compared to the strength at the time it became a Government Company in April, 1973 was as under:—

Category;	Strength at the time of take over i.e. 1972-73	1976-77	1977-78	1978-79	1979-80	1980-81	Increase/decrease since take over
1. Management staff	722	766	750	753	729	726	(+)4
2. Supervisory Staff .	124	156	177	209	259	276	(+)152
3. Clerks/Writers .	708	664	631	621	605	590	(—)118
4. Sub-staff with Drivers .	524	443	428	435	430	436	(—)88
5. Workers . .	9107	8,514	8,513	8,259	8243	8182	(—)925
TOTAL . .	11185	10543	10,499	10,277	10,266	10,210	(—)975

28. The Committee desired to know the sanctioned strength of each category of staff. In reply, the Company intimated that "for all practical purposes actual strength of the employees has been taken as sanctioned strength."

29. While the strength of the lower categories of staff *viz.* clerks, writers, subordinate staff, drivers and workmen, etc. had over the years declined, the strength of the Management staff and the supervisory staff had gone up. The Committee enquired whether the existing strength of Management staff in Jessop & Co. was not high. In reply, the Company intimated that the existing strength of

Management staff worked out to 7 per cent of its total staff strength and that it was far below their sister concern of BHEL where Management Staff constituted 12 per cent of the total staff. In this connection, the Company also stated that the study conducted by the Bureau of Public Enterprises had put the average ratio of Management Staff to total staff strength at 12.3 per cent.

30. When the question was raised in the course of examination of the Ministry a representative of the Ministry of Industry (Department of Heavy Industry) said in evidence: "Over a period of time, we have reduced the highest income category by rationalisation. Whenever officers of that grade, the protected grades, retire, their vacancies have not been filled by equivalent people." The Committee wanted to know if the Ministry's view was that there was no scope for reduction in any grade of the Management Staff, the witness said:

> "We will not make such a statement unless we co-relate the total requirements of Management Staff to the needs of supervision. But the general comparison with other Companies shows that the Management Staff here is about 7 per cent and it is not unduly high."

31. As regards increase of supervisory staff from 124 at the time of take over to 276 as on 31-3-1981, the representative of the Ministry of Industry explained that this increase had to be done to a certain extent to accomodate those people from the No. 3 Staff (*i.e.* Clerks/writers) who had been claiming promotion to the level of supervisers by virtue of their seniority.

32. The Committee enquired if it was a fact that since 1980 about 40 per cent of the workmen in the structurals and coaches works of the Company had been idle despite repeated requests from the workmen to give them material. The Chairman and M.D. explained:

> "That is quite true. That is where the problem comes. Since we are not manufacturing 100 per cent of the items within our roof, we have to depend on the thousands of other suppliers and their problems of power etc., affect the final position. If the inputs are totally matched, Jessops can produce 2 to 3 coach sets per month. It is not able to produce because, the inputs do not come matched in time, including free supply items which the railways are Supposed to give....I am not able to get the requirements to

the correct specifications from the ancillaries in and around Calcutta.

For road rollers we have got. For other products we are always trying to develop related ancillaries for supply of parts. We have got about a few thousand suppliers, but none exclusively for us."

33. When the Committee pointed out that when in early sixties, the Company had reportedly a strength of about 11,000, it was earning profits but now when the strength of workers had been brought down to 8182 it was incurring losses, the Secretary, Ministry of Industry (Department of Heavy Industry) said: "I would only submit that your assessment is basically correct."

34. Asked whether the Company had been facing problem of overstaffing even now, the Ministry of Industry (Department of Heavy Industry) in a note stated as under:—

"On account of the Company's policy to stop manufacture of wagons and due to change in technology from rivetted construction to welded construction, there is approximately a Surplus labour strength of about 2,000 men. These problems have been further aggravated by the recent agreement with the unions whereby retirement age of workmen has been increased from 55 to 58 years."

The Committee enquired if the surplus staff was attributed only to the stoppage of manufacture of wagons and change in technology from rivetted to welded construction, the Company explained that surplus labour was "primarily due to this and due to recession in business in structural fabrication.'

35. According to the Management ratios report furnished to the Committee by the Ministry of Industry (Department of Heavy Industry), man hours utilised to man hours available in Jessop & Co. ranged from 70 to 75 per cent during the period 1976-77 to 1979-80. The Ministry stated that the ratios relating to Jessop & Co. were only indicative as actual data in this regard was not available.

36. In Part IV of the C & A.G.'s Report on Union Government (Commercial), 1979, Audit had pointed out that in Jessop & Co. there was no system of ascertaining idle time for labour. Asked to

explain the reason for this deficiency, the Ministry of Industry intimated:—

"There is a system for ascertaining idle time in labour and machinery specifying the reasons therefor but due to apprehension of disruption in industrial relations such systems are not being used."

37. Asked about the basis for such an apprehension, the Company intimated (August, 1981) *inter alia* that:

"Fear of being declared surplus makes them take longer time to do a job. By this productivity gets sacrified. Inspite of assurance of the Management that they will not be retrenched. Workers response to forward thinking and improvement of productivity is poor. Idle labour cannot be booked—Workers cannot be transferred from one area to another. Progressive measures like modern product documentation systems cannot be implemented. In general workers resist all measures to progress."

38. Asked if these problems were peculiar to Jessop & Co. only, the Company intimated: "All other PSUs in Calcutta suffer from similar problems." The Secretary Ministry of Industry (Department of Heavy Industry), however, expressed following views in evidence:

"It seems to me generally that we are taking shelter under this argument that in Calcutta and round about the labour is not cooperating and work is not going on. It may be partly correct. But, it cannot be the sole reason as such the Management also should make consistent enquiry and efforts to see how this can be corrected. We have to examine as to how is it that the productivity has gone down. It may be that either the Management is not able to manage properly or that the work which is being done is of a nature which does not extract the best out of the workers."

39. The Committee wanted to know the existing level of productivity in the company. In reply, the Chairman & Managing Director of the Company said in evidence:

"The productivity is very poor. It is about 0.3 ton per man per month whereas in other private and public sector it is around 3 tons per man per month. Today my workers do not put in more than 2½ to 3 hours of work. If they put in 6 hours of work, the face of the Company will change. I have told them to give me one ton per man per month and the face of the Company will be different......"

40. The value added per man month in respect of Jessop & Co. and BHEL were as under:—

	1977-78	1978-79	1979-80	1980-81
Jessop & Co.	1344	1366	1205	1470
BHEL	4304	4554	4226	4145

41. Enquired whether the Ministry had at any time reviewed as part of the performance appraisal of Jessop & Co., the employment and productivity, the Secretary, Ministry of Industry (Department of Heavy Industry) said that "no such specific study was ever undertaken."

42. The Ministry had informed the Committee that:

> "Low productivity has been a perennial problem. In the past certain incentives were introduced for workmen to increase productivity by revising the incentive scheme. To-day it has lost its impact in view of the wage increases that have taken place. In order to rationalise incentive schemes and to link it with productivity the Company are negotiating with National Productivity Council to make studies in their various units to suggest a scheme which would benefit the work men as well as the Company."

43. Asked about the latest position, the Company intimated (August, 1981) as follows:—

> "Attempts have first been concentrated in our factory at Durgapur with PECE and Industrial Engineering Department's help. In Durgapur some success has been achieved. As outside studies in these matters cost a lot of money and as the financial situation of Company is bad and as there is no guarantee of acceptance of norms and conditions of the study no elaborate study has been conducted."

44. To a query whether it was possible to evolve an incentive scheme linking wages, dearness allowances and bonus to productivity, the Secretary, Ministry of Industry reacted saying "it should

be possible". He however, pointed out that there were practical difficulties and in any case agreement with labour would be necessary before any such scheme was put through.

45. The Ministry of Industry (Department of Heavy Industry) expressed the following view about the level of expenditure on Salaries, Wages and bonus:—

> "It is true that the level of expenditure on account of salaries, wages and bonus is quite high as compared to the level of production. This is due to the fact that Government took over a sick company."

46. Asked whether the question of high level of expenditure on salaries, wages and bonus had come up for discussion in any of the performance review meetings taken by the Ministry of Industry (Department of Heavy Industry), the Committee were informed that in the performance review meeting held by the Secretary (Heavy Industry) on 11 March, 1980 the Company was advised to reduce its wage bill. The Company, it was stated had been trying to achieve reduction in wages by (i) Control of overtime allowance, (ii) restriction of recruitment and (iii) tightening of supervision.

47. During the period 1975-76 to 1979-80, the company had paid overtime allowance amounting to Rs. 4.32 crores. Year-wise details are given below:—

Year	Amount of overtime Allowance paid
	(Rs. crores)
1975-76	0·69
1976-77	1·02
1977-78	1·29
1978-79	0·59
1979-80	0·73
Total	4·32

48. The Committee wanted to know why the expenditure on overtime allowance should be of this order. The Chairman, and M.D. of the Company explained that this was due to the fact that

under the Agreement entered by the Management with one of the Unions, certain categories of staff like sweepers, and non-productive groups such as drivers and crane operators were guaranteed payment of overtime allowance for 1½ to 2 hours daily. He pointed out that he did try to bring down overtime allowance but had to face lot of resistance from the Unions. The difficulty was that once the staff got used to a concession, they did not like to come out of it.

49. Asked how could the system of guaranteed overtime, allowance and that too by a loss making concern having surplus labour be justified, the Secretary, Ministry of Industry (Department of Heavy Industry) opined:

> "We definitely found that this was a retrograde position and that it should not be allowed to continue."

50. Dealing with the question of utilisation of surplus staff, the Ministry of Industry (Department of Heavy Industry) stated in a note:

> "The Company have taken up a scheme to train some of these men as machine operators and welders but this will have only a marginal effect on the problem since most of these men are above 40 years of age and are not vulnerable to a disciplined training programme. The Company have to live with this until progressively these are washed out by superannuation. Efforts are constantly afoot to make use of them to the best extent. Since Government nationalised a sick company, the constraint of excess employees cannot be solved quickly. However, during the last several years, the Company did not recruit any workmen and the vacancies created by retirement were not filled in excepting in a few cases and that too recently."

51. Asked about the concrete steps proposed to be taken to tackle the problem of overstaffing, the Secretary, Ministry of Industry (Department of Heavy Industry) stated in evidence:

> "We are thinking, that, with the social responsibility that we own in the public sector, we cannot take up any easy solution of retrenching them; there might be two alternatives. One alternative would be—can we not move from such technological items of production to such high value technological items which are not labour displacing but labour utilising items of production. By some sort of

a merger of 3—4 units, we could work out that the man power industry could be put in one set and the other could be put in the second set and there by we can work out the detail. This is being done."

D. Financial and Management Contro

52. The Committee were informed that in a Performance Review Meeting held in March, 1980, the Ministry of Industry (Department of Heavy Industry) had advised the Company to improve the financial and management control. This advice was given to the Company again in 1981. The Company was also stated to have been advised by the Ministry to prepare a comprehensive plan indicating the steps they propose to take to improve the affairs and financial operations. Asked if the comprehensive plan had been prepared by the Company and approved by Government, the representative of the Ministry stated that a "viability plan" was prepared and submitted to the Board at its last meeting held on 24 July, 1981. But it was of such a general nature that it did not answer the specific point as to when viability would be achieved. The witness added. "We have to get it re-examined."

53. The Committee wanted to know that when the Ministry had given the advice in March, 1980 for preparation of a comprehensive plan, how is it that the management had taken more than a year to prepare a plan and even then it was found to be deficient. In reply, the representative of the Ministry said that "both the follow up action from our side as well as the response time, is somewhat too large, and we have to curtail this in order to ensure that the financial management is put on a sound footing."

54. The Committee observed that Performance Review Meetings seem to have become a mere ritual. In reply, the Secretary, Ministry of Industry (Department of Heavy Industry) stated that:

> "I don't think I can say very much in regard to what you have said. I and my colleagues share your feeling. Whatever decision we may take; unless it is backed by a viable plan of action and programme of work, we would not be able achieve any thing."

55. Asked if, in the circumstances, the Committee would be right in concluding that supervision and control at the Ministry's level was fairly weak, the witness stated:—

> "You may be right about the quality of supervision. But as far as the form of supervision is concerned, they have

undertaken reviews in which I think the officer did make a serious effort to set the things in order."

56. The Ministry of Industry intimated the Committee that an Expert Committee on Public Enterprises (Fazal Committee) set up by the Bureau of Public Enterprises had undertaken an indepth study of the working of Jessop & Co. Ltd. Asked about the findings of that Committee, the Secretary, Ministry of Industry said:

"There is a totally new approach to training, to inventory control, to capital utilization, to management practice and things of this type. The Calcutta factory has got to be looked as one integrated whole and the whole programme should be reshuffled in such a way that they become viable units......"

57. When asked about Government's reaction to Fazal Committee Report, the Secretary, Ministry of Industry expressed the view that five Calcutta based factories in the public sector had got to be looked as one integrated whole so as to make them viable. Government had not studied this problem from legal angle. For the present, what was being envisaged was some sort of coordination to bring about greater specialisation among the Calcutta factories and avoid overlapping in their product-mix.

58. To a suggestion by the Committee that the Calcutta based factories could be placed under a Holding Company to ensure a coordinated approach to problems, the Secretary, Ministry of Industry (Department of Heavy Industry) reacted:

"I think that could also be one of the points which could be considered and I was speaking to the Minister also on this. He appears very open in his mind to suggestions of this type."

PART II

CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE

. Jessop & Co. Ltd., a sick company in the private sector converted as a government company in April 1973 following the takeover of its management under the IDR Act, 1951 in May 1958, has incurred heavy losses again in recent years after making some profits during the period 1974-77. The cumulative losses at the end of March 1980 stood at Rs. 35.95 crores which have wiped out the paid up capital of Rs. 25.99 crores. The overheads of the company are very high in as much as these have accounted for 46 to 51 per cent of the cost of production during the last three years. An interfirm comparison has shown that besides salaries and wages, the interest element of cost is the highest in Jessop & Co. The cost of production has been consistently higher than the realisable value of production. The value of production ranged from Rs. 28 crores to Rs. 39 crores as against the breakeven level of Rs. 60 crores. The Committee were startled to hear from the Managing Director of the company that the productivity of labour was about a tenth of what it was in private sector. Despite considerable reduction of labour strength since the takeover of the company there is stated to be still overstaffing to the extent of 2,000 in certain categories out of the total workforce of about 8,000. The working capital requirement of the company has been more than 60 per cent of the cost of production and the working capital is mostly financed through cash credit from banks entailing high interest liability. Thus the company suffers from a combination of maladies.

2. The actual losses incurred by the company were much higher than the budgeted losses. The Committee received an impression that the Department of Heavy Industry did no critically scrutinise the deficit revenue budgets which required prior approval of government and fix the budgetary support in terms of working capital accommodation realistically but instead went on recouping the losses. However, lately for the year 1981-82 some provision was made for the working capital requirement. The Committee desire that the tendency on the part of the public undertakings to underestimate their losses should be curbed. The present system of funding the public undertakings which are incurring losses by giving them loans and overburdening them again with interest is admittedly unsatisfactory. The Committee would await the result of the review of the

system by the Ministry in order to remove the financial constraints of public undertakings.

3. The working capital of the company is locked up largely in heavy inventories and trade credits and this has created tremendous liquidity problem. The huge inventory holding of the company (Rs. 38.26 crores at the end of March 1980) is by any standard unjustified. The works stock and raw materials alone accounted for more than a year's consumption for production. The book debts of the company represented about 60 per cent of the sales. Surprisingly, no norms for inventory holding have been fixed so far.. Although the BPE had taken up in August 1980 an indepth study of inventory control of the company, the study had not yet been completed. The Committee desire that this should be expedited and scientific inventory control introduced without delay. Further, the credit policy and recovery procedures of the company require a review to arrest such large accumulation of debts.

4. The strength of the various categories of employees of the company has not been fixed on any scientific basis.. For all practical purposes the actual strength has been taken as sanctioned strength. The Committee would commend an independent study of the position. .The management of the company seems to be top heavy, even though its management staff is only about 7 per cent of the total employees' strength as against the average of 12.3 per cent as revealed by a study of public undertakings by the BPE. The Committee wish to point out in his connection that the lower percentage in the case of Jessop & Co. is illusory in view of the admitted surplus and the grossly underemployed work-force.

5. The Committee were surprised to learn that the system of ascertaining the idle time of labour specifying the reasons therefor was not being followed in the company and the workers could not be redeployed productively owing to apprehension of disruption of industrial relations. In general the workers are reported to resist all measures to progress.. Although according to the company all the public undertakings in Calcutta suffer from similar problems, it was refreshing to hear from the Secretary, Department of Heavy Industry that these are largely managerial failures. As stated earlier the productivity in Jessop & Co. is incredibly low. The workers reportedly put in hardly 3 hours of work per day. However, overtime allowance ranging from Rs. 59 lakhs to Rs. 129 lakhs was paid annually during the last 3 years conceding a demand by certain sections of the workers to have a minimum of overtime anyhow. Such a practice obviously should not be allowed to continue. The Committee further desire that some fresh incentive system should be

evolved to link wages including DA and bonus to productivity and introduced in all the public undertakings.

6. In the opinion of the Committee the existing labour force could be productively employed to a large extent provided regular flow of properly matched inputs and closer supervision of production could be ensured.. In the early 60's when the company had a much bigger labour force there were profits. The present problem is, therefore, clearly one of managerial inefficiency, which ought to be curbed. In this connection the Committee also desire that the possibility of the company developing its own ancillary units should be explored for assured supply of materials.

7. That the performance reviews by the Department of Heavy Industry and the follow-up action on the directives given in such review meetings were not effective enough had been conceded by the Secretary.. At no time did the Department review the employment and productivity of the company specifically. The performance reviews have thus become a mere ritual and the quality of supervision by the Department had been admittedly weak. The follow-up action on the advice given to the company in March 1980 to prepare a comprehensive plan to improve the affairs and financial operations was delayed and such a plan has yet to evolve in a satisfactory way.. The Committee regret that despite such glaring slackness in financial and management control in the company, the Administrative Department has not played its role effectively. The Committee trust that atleast after this Report some serious steps would be taken to make the company a viable unit.

8. An idea seems to have emerged recently that all the similar Calcutta based Central public enterprises could be viewed as one for the purpose of organising production and achieving a reasonable level of productivity. The Committee recommend that the desirability of putting all the engineering enterprises in Calcutta controlled by the Department of Heavy Industry under a holding company for necessary coordinated approach should be seriously examined by the Government.

NEW DELHI;
December 23, 1981
Pausa 2, 1903 (S).

BANSI LAL,
Chairman,
Committee on Public Undertakings.

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