Managing Agents on the Way Out

R K Hazari

THE Finance Minister has announced that Government is considering a proposal for gradual abolition of the managing agency system in well established industries. A beginning would be made next year when some of the agreements between managing agents and managed companies approved in 1960 (when all old agreements had to be revised in terms of the Companies Act 1956) would come up for renewal. Earlier, it appeared that Government might wait for the report of the Monopolies Commission scheduled for October 1965 before coming to a definite conclusion. Since the Commission threatens to get lost in the petty details of conventional monopolistic practices, it is just as well that the Finance Minister has decided to go ahead without the benefit of its recommendations.

Under the 1956 Act, Government has the power, *vide* Section 324, to prohibit the appointment of managing agents in companies "which are engaged on (the) date (of the notification) or may thereafter be engaged, wholly or in part in such class or description of industry or business as may be specified in the notification". In such cases, the appointment of managing agents shall expire, at the latest, three years from the date specified in the notification, provided the notification has been approved by Parliament. The full text of the Minister's speech is not available yet but it seems from newspaper reports that he does not contemplate resort to Section 324 procedures and prefers instead to make the Company Law Board use its powers under Section 326 to reject applications for Government approval. While I wholeheartedly welcome the Minister's decision (see my article "The Managing Agency System —A Case for Its Abolition", Annual Number, February 1964, pp 315-322), I am unable to appreciate this roundabout way of implementing the Government's policy.

The constitutional issue of by-passing Parliament apart (cumbersome and unnecessary though the procedure for Parliamentary approval prescribed by Section 324 might be), Section 326 is meant to deal with cases of individual misbehaviour, not broad policy issues. Sub-section 2 of Section 326 specifies only three grounds for rejection of an application: (a) when it is against the public interest to allow the company to have a managing agent; (b) when the proposed managing agent is not a fit and proper person and the conditions of his appointment are not fair and reasonable; and (c) when the proposed managing agent has not fulfilled conditions which Government might have required him to fulfil. These three conditions cannot be stretched to cover the entire policy question of the continuance of the managing agency system. Action under Section 324 would be a more dignified way of bowing out this relice of the past.

No Tears Necessary

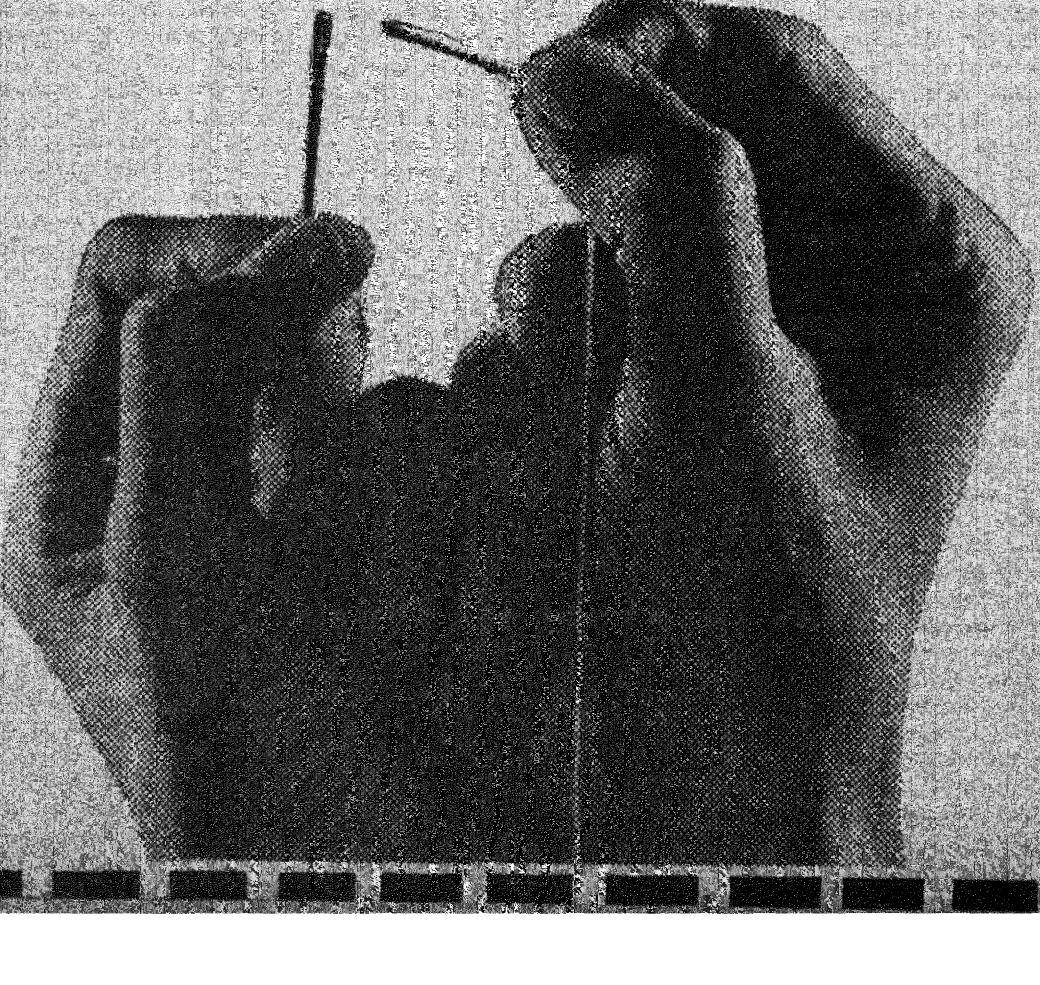
What are the well-established industries which are about to be emancipated of this system? They are not many, and can be enumerated without difficulty: cotton and rayon, jute, paper, sugar, tea and cement. With regard to these industries, I had suggested earlier that "The problems of finance and management of these industries do not call for the special services which the managing agents claim to have provided so far. The technical changes and problems of marketing that they have to face require professional skill, not the part-time attention of the members of controlling families. In all these industries, tea excepted, the managed companies are, in general, better known in their own right than the managing agents which manage them ... The elimination of the managing agency system from these industries will not affect the control of (business) groups over their companies for the controlling blocks in them are, in general, quite substantial". Care should be taken, at the same time, to give a somewhat longer rope, for the next few years, to managing agents in new and capital intensive industries — on grounds of commonsense, not that there is much logic in this discrimination. Their capital requirements are very large, the gestation periods are long, the controlling equity is relatively small — and the doors are open "a little wider" to foreign collaborators.

No tears need be shed over the impending departure of managing agents. G D Birla and Kasturbhai Lalbhai delivered the pre-funeral orations some time before the Government made up its mind. Sorrow is unnecessary because the abolition of the managing agency system aims not at reducing the concentration of economic power but at giving an impetus to the development of professional top management. The fertility and versatile talents of controlling families notwithstanding, the desire to keep managerial decisions as an exclusive family prerogative is running into a size-cum-technical barrier which can be pierced only by genuine delegation of powers and giving of incentives to those who actually manage, rather than to the ones privileged by birth. In India's largest diversified company, Delhi Cloth Mills, the manager of each factory (never mind the managing agents) gets a commission of one per cent or more on profits. The managerial incentives, therefore, go where they belong — and one has reasons to suspect that this scheme has something to do with DCM's prosperity and expansion. If the orthodox contention is that there are not enough professional managers to go round, the answer is, first, that this *is* no compliment to the system we have had so far and, second, that by and large such managers cannot come up in the traditional framework of the managing agency system.

This brings us to the points which were raised by Sudhir Mulji (March 21, 1964, pp 569-570) in his defence of the system. As a Martian recently descended (not by birthright though) upon solid earth, I cannot be expected to fully appreciate or understand all the intricate ways of high finance, especially the invaluable and sound traditions of financial genius "handed down from generation to generation". Leaving aside the question of public sector or private sector management which is quite irrelevant in this context (I am all for generous incentives and wide powers to the deserving, see above), I see no reason why one or more managing directors (by whatever name called) cannot perform the functions of management and act as instruments of control on behalf of the controlling interest. I do not remember making any plea for abolition of all forms of top management or group management!

In the course of extended cordial discussions, Sudhir Mulji conceded that the rationale of managing agents does not lie in the provision of concrete identifiable managerial services. He asserted that managing agents are financially indispensable in these situations:

(i) in the case of a new company, the management can offer an additional



negotiable asset to large investors in the form of charges upon or shares in the managing agency commission;

(ii) in a joint venture (with Indian or foreign partners), all partners can have the satisfaction of participation in financial and managerial control; and

(iii) in a joint family, it is easier to raise controlling (or promoter's) equity if all the members are technically entitled to have a say even though active management is entrusted to one or a few members. Besides, as the contribution of promoters to the equity capital steadily declines and larger proportions are raised from financial institutions and outside investors, managing agency agreements become all the more necessary (especially for new entrepreneurs) for retaining control over the managed companies). While fully appreciating these arguments, I am far from convinced that they amount to a case against the gradual abolition of the managing agency system.

The practice of giving shares in the managing agency commission in return for financial support to new ventures has practically withered away since the IFC and the ICICI got into stride. The remnants of this practice are either devices to avoid taxation or, as in the case of DCM, an ingenuous way of providing incentives to senior executives without the controlling family divesting itself of the managing agency rights. Managing agents cannot have the argument both ways: that their remuneration is low compared to the comprehensive services which they provide but high enough to make it a negotiable asset. As for all partners and/or joint family members having a say in management, I concede that Sudhir Mulji's practical experience could have convinced him that it does not lead to confusion and over-lapping of hierarchy but, for one thing, this belief is not shared by many other 'practical' people; for another, I see no difficulty in finding places for competent partners and family members in a hierarchy of managing directors, devoting reasonable attention to the affairs of managed companies in return tor adequate direct remuneration from them.

The problem of retaining managerial control when outside investors hold more than 50 per cent of voting power need not be magnified disproportionately. In leading well known companies, this problem is overcome by the wide dispersion of shareholding and the neutral position adopted by the LIC and the ICICI. In most of the remaining companies, the controlling interests normally hold more than 40 or 50 per cent of voting power and are, therefore quite safe that leaves only a few marginal cases tike certain Kirloskar and Seshasayee companies, in which outside investors hold much larger blocks than the controlling interests. My contention regarding the last problem is quite simple though it is not based upon personal experience of high finance: what prevents the large investors in these companies from combining to vote our the present managing agents? If the managing agents have not been voted out so far, nor are they in genuine danger of being voted out, why should their successor managing directors be any worse off?

Nepal's Foreign Trade

K Prasad

Nepal's foreign trade has expanded rapidly; the expansion is likely to be maintained in view of the development programme launched by the country.

Though imports and exports have both increased, exports have lagged behind so that the trade deficit has tended to widen.

As Nepal's principal trading partner, India has accounted for the largest share of the increase in Nepal's imports and exports. With India, too, Nepal's trade deficit has increased.

However, there is a considerable volume of export of goods from Nepal to India which is not officially recorded. If account is taken of this, Nepal's trade deficit with India will turn out to be far smaller than what is recorded by official statistics.

|N Nepal, as in many other developing countries, the non-availability of basic statistical data constitutes a major obstacle to formulate realistic development plans. The awareness of this limitation has prompted the Government of Nepal to make an all-out effort to gather basic economic data by conducting a number of surveys and censuses. As a result of active interest taken by the Government, economic data have recently started becoming available in such fields as national income, population, agriculture, prices, foreign trade, etc. The Central Bureau of Statistics of the Government of Nepal has very recently published foreign trade statistics. The statistics published, though they relate to the period 1957-58 to 1960-61, merit examination as they provide useful material for studying the trend, commodity composition, and direction of Nepal's foreign trade.

Rapid Expansion

Nepal's commodity trade has considerably expanded during the years 1957-58 to 1960-61, the period for which data have been published by the Central Bureau of Statistics. During the period, Nepal's imports went up from Rs 15.83 crores to Rs 39.80 crores, recording an increase of 152 per cent. As regards exports, which rose from Rs 7.83 crores in 1957-58 to Rs 20.98 crores by 1960-61, a somewhat higher order of increase of 188 per cent was registered. Table I gives the index numbers of exports and imports with the year 1957-58 as base.

Nepal's foreign trade is predominantly with India. In her imports India's share during the years 1957-58 to 1960^61 ranged between 94 to 98 per cent. Imports from overseas countries were around 5 per cent except in 1958-59, when it was only 1.7 per cent. In overall imports, commodities coming from Tibet accounted for less than 1 per cent. As regards exports the combined figures of exports to India and overseas countries accounted for over 99 per cent. In the absence of separate data it is, however, not feasible to indicate the actual order of exports to overseas countries. On a rough basis such exports can be assumed to be in the neighbourhood of 4 to 5 per cent. The value of exports to Tibet has revealed