The Managing Agency System

A Case for Its Abolition

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The managing agency system still predominates in the management of public industrial companies, though most of the companies registered in India are, as in the past, managed by boards of directors.

Almost every business group has a large number of managing agencies, most of which manage only one or two companies each. Nearly all these managing agencies have very little resources and provide only a small fraction of live total share capital of the companies under their management. And half of the share capital of the managing agency companies is held by other companies.

This form of management is not necessary for providing firm and stable group control over management. It does not, in general, bring about economies of management On the contrary, it is an expensive and irrational system of management to which the managing agents do not even devote their whole time. The abolition of the system is necessary in order to rationalise the management of public industrial companies.

The reform will, 'over a period of time, separate the power to appoint and control management from the actual exercise of the managerial junction. It will give an impetus to the building up of professional technical-cum-managerial cadres, the top members of which would he judged by their performance, not by their blood relationship and financial participation.

To prevent managerial dislocation, a phased programme may be drawn up for the abolition of this system, step by step, in selected categories of companies.

The statistical data in this article are taken from the author's forthcoming book on "The Structure of the Corporate Private Sector—A Study of Concentration. Ownership and Control" to be published by- Asia Publishing House.

IT is hardly surprising that most studies of private industrial management have been and are pre-occupied with the managing agency system. Most of the large public industrial companies are still managed by managing agents, though the number of managing agents and the companies managed by them have declined since the enactment of the Companies Act in 1956. In 1954-55, the companies, private and public, managed by managing agents accounted for 51 per cent of the share capital of all companies. This excludes government, banking and insurance companies which are statutorily debarred from having managing agents. This ratio in that year for public companies alone was 71 per cent In 196061, the proportion for all companies, public and private, declined from 54 per cent to about 36 per cent, including in the companies managed by managing agents also those which were managed by secretaries and treasurers.[1] Comparable data for public companies are not available for 1960-61; the ratio for them would exceed 50 per cent.

The majority of companies registered in India have always been under other systems of management, mainly because private companies, which constitute two-thirds of the number of companies, and 'small public companies did not, in general, have managing agents (see Table 1). The significance) of the managing agency system lies, therefore, in its predominance in the management of large public, mainly industrial, companies.

Little Information

Notwithstanding the public preoccupation with the managing agency system, and the availability of a considerable amount of primary data at the offices of Registrars of Companies, little has been known so far about the corporate structure of managing agency companies. The following is an attempt to throw some light for the first time on select aspects of this problem, namely, the number and resources of managing agents ! in certain business groups, the I number of companies managed by ' each managing agent, the pattern of ownership of these managing agents, and the investments made by them in the companies belonging to their group. These data are culled from the author's forthcoming work on "The Structure of the Corporate Private Sector: A Study of Concentration. Ownership and Control"[2] which was concerned, among other things, with the size. growth, pattern of ownership and control of approximately 1.000 companies in which 20 selected corporate groups had an interest in the two reference years. 195] and 1958.

The number of joint stock managing agency companies covered in this study was 85 in 1951 and 77 in 1958. They were distributed between public and private com panics as follows:

	1951	1958
Public companies	26	18
Private companies	59	59
Total	85	77

[1] *Company News and Notes* (Government of India, Company Law Division), Vol I, No 23, September 2, 1963, pp 31-40. 'Managing agent' includes 'secretaries and treasurers' in this article.

[2] Based upon a research project financed by the Research Programmes Committee of the Planning Commission.

These companies had a total share capital of Rs 17.63 crores in 1951 and Rs 19.87 crores in 1958. The majority of the companies, however, was very small, judged by both share capital and net worth plus loans (Tabes 2 and 3).

Out of 85 managing agencies in 1951, 62 had a share capital qf less than Rs 10 lakhs each. In 1958, 52 out of 77 were in a similar position. In fact, 12 companies in both years had a share capital of less than Rs 5.000 each; one had a share capital of Rs 255 only. Nearly all those companies which had a share capital of Rs 50 lakhs and above, e g. Martin Burn. Andrew Yule. Mahindra and Mahindra. MacNeill & Barry, and Greaves Cotton had other business besides managing agency. Tata Industries. which manages several of the largest public companies in India, had a share capital of Rs 2.25 crores. issued wholly for consideration other than cash as compensation for the transfer of managing agency rights from Tata Sons: it had no investments whatever in the companies under its management.

The smallness of their share capital was not compensated by reserves and loans: 35 managing agencies in 1958 had net worth plus loans of less than Rs 10 lakhs each. The balance sheets of nearly all 'pure' managing agencies actually indicate very little resources of any kind.

Multiple Managing Agencies

In 1958. the twenty Complexes" studied had 89 managing agencies in all, including unincorporated firms. Even Complex, except Martin .Burn. Andrew Yule, and Mahindra, had more than one managing agency each (see Table 4). Birla had 13, Tata 9, and Bangur. Mafatial and Kasturbhui 7 each, to mention only the leading ones.

Between them. these 89 managing agencies managed 352 companies (another 20 companies were managed by managing agents outside the twenty Complexes). As many as 47 managing agents managed only one company each, and 15 only 2 each. At the other end of the scale, Andrew Yule managed 39, Bird 34, MacNeil & Harry 24, Karam Chand Thapar & Brothers 22, Birla Brothers 20, Martin Burn 19 and Tata Industries 10. (Section 332 of the Companies Act 1956 which limits the number of public companies managed by a managing agent to 10 became effective only from August 15, 1960). The general validity of this pattern in the corporate private sector as a whole is confirmed by the data published by the Company Law Division. (See *Company News and Notes* cited earlier).

Ownership

Most of the share capital of managing agency companies is not owned by individuals. Only 36 out of 85 managing agency companies in 1951 and 30 out of 77 in 1958 were owned wholly by individuals and trusts. In the aggregate. individuals owned a little more than one-third of total share capital in both the years, while trusts also held a significant proportion. The principal owners were Indian companies and the proportion of share capital owned by them recorded a significant increase between 1951 and 1958 (Table 5).

Seventeen managing agencies in 1951 and 22 in 1958 were subsidiaries or joint subsidiaries, i e, more than 50 per cent of their share capital was owned by one or more companies (Table 6). These included, in 1958. such well known and leading managing agencies as Tata Industries. Tata Hydro-electric Agencies. Cement Agencies. Forbes Forbes & Campbell, MacNeil & Barry. Kilburn, Birla Gwalior. Cotton Agents. Andrew

[3]As defined in my article "Ownership and Control in the issue of November 26, 1960, the Complex includes. besides Inner Circle companies (i e, companies under sole or majority control), those companies in Which the group concerned has a fifty-fifth or minority interest.

Table 3: Distribution of Managing Agencies by Size

Net Worth Plus Loans (Rs lakhs)	1951 Public	1958 Public	1958 Private
	No of Companies		
Upto 10	8	6	30
10 to 25	5	1	8
25 to 50	3	2	8
50 to 100	5	3	6
100 and above	5	6	7
Total	26	18	59

Table 1: Companies Managed by Managing Agents

	1954-55			1962-63		
	Public	Private	Total	Private	Public	Total
1 Total number of companies at work*	9,126	19,442	28,568	5,380	19,218	24,598
2 Companies managed by managing agents	4,091	964	5,055	1,217	223	1,440
3 (2) as % of (1)	44.8	5.0	17.7	22.6	1.2	5.9

Source: Government of India, Company Law Division.

* Excluding banking, insurance and government companies.

Table 2: Distribution of Managing Agencies by Share Capital

Share Capital (Rs thousand)	1951 Public	1951 Private	1958 Public	1958 Private
	No of Companies			
Upto 5	4	8	3	9
5 to 1,00	1	22	—	13
1,00 to 10,00	12	15	5	22
10,00 to 25,00	3	4	3	3
25,00 to 50.00	—	6	1	8
50.00 to 100,00	2	3	2	3
100,00 and above	4	1	4	1
Total	26	59	18	59

Yule, Kettlewell Bullen, J K Industries, Greaves Cotton and W H Brady.

In both 1951 and 1958, most of the holdings of Indian companies in managing agencies were on account of investment companies, but a significant part came from cotton mills, plantations, banks, insurance, trade and, in 1958, also engineering, real estate and 'other' industry.

Foreign investors, both individuals and companies, have a substantial direct stake in managing agency companies. The proportion of share capital owned by them, however, clearly declined during the period mainly due, it appears, to a transfer of their holdings to companies under the same control registered in India. Within this category of owners, there was a significant transfer of holdings from individuals to companies.

The share-holding by Government in managing agency companies was nominal in both years. But L I C came to own nearly 19 per cent of the preference share capital and one per cent of equity by 1958.

Joint Ventures

Several managing agencies are joint ventures of more than one controlling interest. Martin Burn is under the joint control of Martin. Mookerjee and Banerjee. The control of MacNeil & Barry and its wholly owned subsidiary, Kilbunu is shared between Inchcape, Mackay and Tata. Cement Agencies is a combine of Killick, Shapoorji, Tata and Khatau. Tata Hydro-Electric Agencies is under the joint control of Tata (50.1%) and a foreign company (49.9%). Aero-Auto is a combine of Walchand, Kilachand and Khatau. In 1951, Forbes Forbes & Campbell was under joint Tata and foreign control, and Kettlewell Bullen was owned to the extent of 50 per cent by MacNeil & Barry (i e, Inchcape, Mackay and Tata.) In 1958, Nowrosjee Wadia & Sons was jointly owned by Wadia and Shapoorji.

In all, there was more than one controlling family or interest in 29 out of 85 managing agency companies in 1951, and in 24 out of 77 in 105ft.

Table 4 : Distribution of Managing Agents by Complexes 1958

	Complex	No of Mg Agents †	No of Companies Managed by Mg Agents *	No of Companies Managed By Each Managing Agent (In descending order)
1	Tata	9	70 (10)	24+10+9+8+3+2+2+1+1
2	Birla	13	49 (3)	20+8+4+4+2+1+1+1+1+1+1+1
3	Martin Burn	1	19	19
4	D S J	5	13 (1)	6+2+2+1+1
5	Bird Heilger	3	43 (2)	34+6+1
6	Andrew Yule	1	39	39
7	Bangur	7	28 (8)	9+5+2+1+1+1+1
8	Thapar	2	25 (1)	22+2
9	J K	6	12	4+3+2+1+1+1
10	Shri Ram	3	5 (2)	1+1+1
11	Shapoorji	5	11	5+3+1+1+1
12	Khatau	5	11	6+2+1+1+1
13	Walchand	3	12	9+2+1
14	Mafatlal	7	10 (2)	2+1+1+1+1+1+1
15	Kasturbhai	7	9	3+1+1+1+1+1+1
16	Seshasayee	4	9	4+3+1+1
17	Ramakrishna	2	6 (2)	2+2
18	Indra Singh	4	6 (1)	2+1+1+1
19	Mahindra	1	5	5
20	Kirloskar	4	7 (1)	2+2+1+1
	Total (gross)	92	389 (33)	
	Less counted more than once	3	17 (13)	
	Total (net)	89	372 (20)	

† The number excludes those managing agents which are outside the Complex but which manage companies within the Complex. Unincorporated managing agencies are, however, included.

* Including companies within the Complex which are managed by managing agents outside the Complex. The number of these companies is indicated in parentheses.

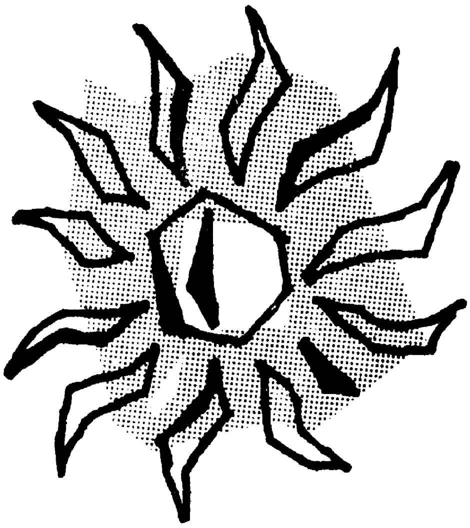
Table 6: Managing Agencies Classified by Ownership

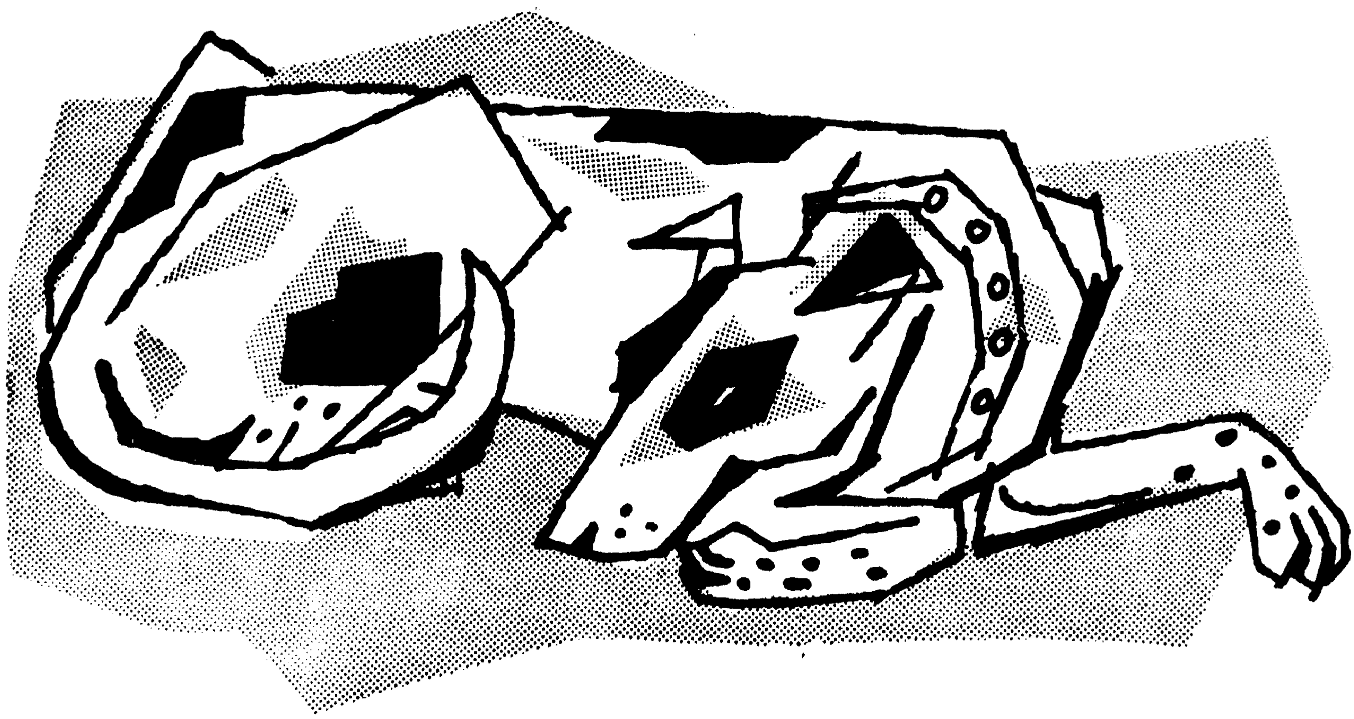
	1951		1958	
	Public	Private	Public	Private
Subsidiaries	—	2	—	3
Joint subsidiaries	4	11	7	12
Owned 50:50 by companies and individuals	1	..	1	—
Owned mainly by individuals and trusts	21	44	10	42
Owned mainly by foreign individuals	1	2	—	2
Total	26	59	18	59

Table 5: Ownership of Managing Agency Companies

(*Rs lakhs*)

	1951				1958			
	Ord	%	Pref	%	Ord	%	Pref	%
Total Share Capital	13,19	(100.0)	4,44	(100.0)	15,65	(100.0)	4,22	(100.0)
Owners								
Individuals in India	4,84	(36.7)	1,30	(29.3)	5,98	(38.2)	87	(20.6)
Indian companies	5,95	(45.2)	1,66	(37.4)	7,73	(49.4)	1,79	(42.4)
Government	23	(1.7)	4	(0.9)	1	(0.1)	3	(0.7)
Trusts	60	(4.5)	44	(9.9)	31	(2.0)	41	(9.7)
Foreign investors	1,57	(11.9)	1,00	(22.5)	1,45	(9.2)	34	(8.1)
L I C	—	(—)	—	(—)	17	(1.1)	78	(18.5)





We turn now from the ownership of managing agency companies to their investments.

The study is based on an analysis of the shareholders' list of 988 companies in 1951 and 1,079 companies in 1958. The total share capital of these companies in the respective years was Rs 244 crores and Rs 363 crores. Of these companies, 730 in 1951 and 865 in 1958 had some shareholding by Indian companies. Banking and insurance companies in both years and managing agency companies in 1958 have to be excluded from the aggregate since they were not permitted to have managing agents. Excluding the latter, we are then left with 705 companies in 1951 and 796 companies in 1958 in which managing agency companies could have some shareholdings. The share capital of these companies in the respective years was Rs 222 crores and Rs 326 crores. Of these, corporate managing agents held Rs 5.55 crores and Rs 8.01 crores, respectively, or 2.5 per cent of the total share capital in both the reference years. (Table 7). The shareholding by managing agents was significant only in plantation companies. In all the others, as in the aggregate, their role as shareholders was nominal.

Small Holdings

The data on the holdings by managing agents in the public and private companies or in such of them as engage in industry - referred to as industrial companies -of the twenty Inner Circles, i e, companies under the sole and majority control of groups, indicate that they own a very small proportion of the share capital of these categories of companies also. This proportion, moreover, tended to decline during the period (Table 8).

Further, in both 1951 and 1958. managing agents held less than 6 per cent of the total controlling blocks in the Inner Circle public companies of the groups studied. (Table 9). Managing agents do not themselves hold any important, part even of the investments by their controlling interests in the companies under their control. Most investments of this nature are held by investment companies, industrial companies, individuals and trusts within the groups.

The data do under-estimate slightly the investments by managing agents in the companies under their management because of

(i) the exclusion of investments by unincorporated managing agents and managing agents outside the Complexes,

(ii) the registration of some part of the investments by incorporated managing agents in the names of banks and other nominees, and

(iii) the inclusion of the share capital of companies not managed by managing agents in the aggregate share capital,

None of these sources of under-estimation, it can be said, is signi-

Table 7: Corporate Managing Agents' Shareholdings by Industry

Industry	1951			1958		
	No of Companies	Share Capital (*Rs Lakhs*)	% of (2) Held By Mg Agents	No of Companies	Share Capital (*Rs Lakhs*)	% of (5) Held By Mg Agents
	1	2	3	4	5	6
Coal	41	843	4.9	47	900	6.6
Other mining	14	74	4.0	14	149	3.0
Power	19	1336	0.8	17	1683	1.2
Cotton	53	2415	1.5	58	2439	3.0
Rayon	1	75		4	777	0.5
Woollen	2	97	—	2	47	
Jute	33	1250	5.2	30	1281	3.9
Iron and steel	3	1900	0.2	2	4201	0.7
Non-ferrous	6	139	0.2	5	228	0.7
Engineering	45	2050	5.0	75	4889	4.2
Sugar	24	507	3.3	29	737	4.5
Plantations	43	255	28.3	45	343	19.6
Food & veg oil	16	289	1.2	16	280	1.1
Chemicals	18	816	1.9	23	1564	2.0
Paper	7	427	1.4	11	1278	3.9
Printing and Publishing	12	148	8.2	18	177	6.3
Real estate	21	353	0.5	27	380	0.9
Construction	5	92	—	9	149	0.1
Glass, plastics and pottery	6	141	—	6	169	—
Cement, asbestos and fireclay	13	2013	1.8	15	3438	0.4
Transport	20	1767	0.1	14	1396	0.8
Hotels and services	3	33	1.6	5	41	0.7
Investment and finance	143	2554	0.8	80	2621	3.1
Managing agency	49	1537	0.8		—	—
Other industry	18	832	7.8	38	2659	1.4
Trade	90	267	11.0	106	817	1.4
Total	705	22210	2.5	796	32642	2.5

Notes: 1 Other industry includes diversified companies.
2 The holdings of unincorporated managing agents are excluded.

Table 8: Managing Agents' Shareholdings in Inner Circle Companies

	Public Companies		Private Companies		Industrial Companies	
	1951	1958	1951	1958	1951	1958
No of companies	(524)	(545)	(293)	(343)	(330)	(375)
(Percentages of share capital owned by managing agents)						
Total share capital	2.3	2.2	3.1	2.8	3.0	2.5
Ordinary share capital	2.8	2.6	3.6	3.1	3.8	3.0
Preference share capital	0.9	0.8	0.9	0.3	0.9	0.9

The data cover all Inner Circle companies in the selected categories, unlike data in Table 7 which include only those companies which have some holding by Indian companies.

ficant enough to alter the basic validity of the above statements.

Principal Features

The principal features of the managing agency system which emerge from this study can be summed up as follows:

(a) The managing agency system is still the predominant form of management in large public industrial companies, but most other companies are under the direct management of boards of directors,

(b) Almost every Complex has a large number of managing agencies, most of which manage only one company each, while a few manage a very large number.

(c) Barring a few, which have other business besides managing agency, nearly all managing agencies have very little resources. They provide only a small fraction of the total share capital of the companies under their management.

(d) A large part of the share capital of managing agency companies is owned by other companies. In fact, many leading managing agency companies arc subsidiaries or joint subsidiaries of other companies. This goes to show that they are merely the management departments of the groups concerned, and do not constitute the fountain-heads of control.

(e) A fairly large number of managing agencies are under the joint control of more than one controlling interest.

The principal advantages claimed for this system, as distinguished from other methods of managing companies *under the same control* are that

(i) it provides firm and stable control over management;

(ii) it secures the economies of large scale operations, e g, in marketing, finance and management to companies under the same management; and

(iii) it provides a flexible system of remuneration to top management.

Managing agency agreements do not, however, appear to be generally necessary for the purpose of exercising control over the management of public companies. The total controlling blocks in the public industrial companies of most groups are sufficiently large to enable the controlling interests

Table 9: Controlling Blocks in Inner Circle Public Companies
(Rs lakhs)

	1951			1958		
	Total	Ord	Pref	Total	Ord	Pref
No of companies	524			545		
1 Total share capital	1,66,26	1,25,63	40,63	2,56,70	1,99,42	57,28
2 Controlling Blocks	69,54	60,30	9,24	95,77	85,88	9,89
(2) as % of (1)	(41.8)	(48.0)	(22.7)	(37.3)	(43.1)	(17.3)
Holders of Blocks :						
a) Managing agents	3,83 (5.5)	3,47 (5.8)	36 (3.9)	5,69 (5.9)	5.23 (6.1)	46 (4.7)
b) Investment companies	27,13 (39.0)	24,73 (41.0)	2,40 (26.0)	39,51 (41.3)	35,60 (41.5)	3,91 (39.5)
c) Banking companies	88 (1.3)	58 (1.0)	30 (3.2)	1,64 (1.7)	1,15 (1.3)	49 (5.0)
d) Insurance companies	3,01 (4.3)	1,75 (2.9)	1,26 (13.6)	2,22 (2.3)	1,54 (1.8)	68 (6.9)
e) Industrial companies	10,75 (15.5)	8,15 (13.5)	2,60 (28.1)	16,63 (17.4)	14,83 (17.3)	1,80 (18.2)
f) Service companies	53 (0.8)	46 (0.8)	7 (0.8)	2,36 (2.5)	2,12 (2.5)	24 (2.4)
g) Trusts	3,75 (5.4)	3,17 (5.3)	58 (6.3)	7,13 (7.4)	6,52 (7.6)	61 (6.2)
h) Individuals in India	18,63 (26.7)	17,13 (28.3)	1,50 (16.2)	19,78 (20.7)	18,12 (21.1)	1,66 (16.8)
i) Companies abroad	62 (0.9)	52 (0.8)	10 (1.1)	50 (0.5)	50 (0.6)	— (—)
j) Individuals abroad	41 (0.6)	34 (0.6)	7 (0.8)	31 (0.3)	27 (0.3)	4 (0.4)

Note : Figures in parentheses under (a) to (j) are percentages of the amount shown in row (2).

Table 10: Controlling Blocks in Public Companies of Twenty Inner Circles
(Percentages of share capital)

Group	1951 Ord	1951 Pref	1958 Ord	1958 Pref
1 Tata	19.5	4.5	18.0	2.2
2 Birla	61.0	55.4	61.1	28.0
3 Martin Burn	25.9	7.4	23.7	3.1
4 Dalmia Sahu Jain	65.2	36.3	54.8	24.2
5 Bird Heilger	34.7	10.6	40.5	8.2
6 Andrew Yule	43.3	43.0	45.7	43.1
7 Bangur	79.8	46.5	68.8	25.4
8 Thapar	57.6	11.8	61.1	23.7
9 J.K.	72.8	46.0	74.7	36.4
10 Shri Ram	46.3	58.2	43.9	26.9
11 Shapoorji	72.3	—	35.5*	—
12 Khatau	67.2	16.4	68.6	17.7
13 Walchand	69.8	17.1	67.0	6.3
14 Mafatlal	68.5	2.7	69.5	7.4
15 Kasturbhai	23.4	36.2	20.1	34.3
16 Seshasayee	8.7	4.9	6.1	2.7
17 Ramakrishna	26.5	18.3	24.4	11.9
18 Indra Singh	62.6	—	40.6	41.0
19 Mahindra	8.0	22.5	37.8†	5.3
20 Kirloskar	27.9	—	27.9	1.7
Total	48.0	22.7	43.1	17.3

The decline occurred owing to the acquisition of the Brady group in 1958.

† The increase is mainly due to the conversion of the principal company from private to public.

to control the management of these companies (see Tables 9 and 10) even without the additional power of control conferred by managing agency agreements. There are some exceptions, however, e g, Tata Steel, Indian Iron, Associated Cement, and some Seshasayee and Kirloskar companies in which the controlling blocks are relatively small. In such cases, the loss of managing agency rights may make the controlling interest feel insecure. But even in these exceptional cases, large L 1 C holdings, the power of Government to prevent the exercise of voting power by cornerers for up to three years under Section 250 of the Companies Act, and the support of uncommitted shareholders who have confidence in them would help to keep the managements in office.

It is remarkable, indeed, that no group has ever lost control over its banking and insurance companies, which cannot have managing agents and in which the shareholding of the controlling interests tends to be smaller than in other public companies (Table 11).

Perpetuation of Family Control

The firm and stable control which the managing agency system is supposed to provide is, in fact, the perpetuation of family control. The system confers a birthright upon the managing agency family not merely to control the management of companies in the group but also to participate actively in and to direct their routine management. The technical and managerial deficiencies of hereditary management have been made up to some extent, in recent years, by the employment of professional technicians and managers, but the appointment of family members at levels superior to these professionals tends to weaken efficiency, and leads to an overlap of hierarchy in the top management of the managed companies.

There is often confusion within many managing agencies, too, for all the partners, if the managing agency is a joint venture, as well as the active family members, have the right to intervene directly in the day to day affairs of the managed companies.

Economies of Management

The question of the accrual of economies of management to companies under the same management can arise only in the case of those managing agents which manage a large number of companies. As stated earlier, most managing agents manage only one or two companies each. In their case, the question of economies of management does not arise at all.

The few managing agents who manage a large number of companies cannot claim special expertise in each of the various industries in which they have a managerial interest. They are not under an obligation to provide the best managerial and technical expertise at their own cost. The cost of the expertise, when it is obtained, is almost invariably charged to the managed companies, not to the managing agents.

The rate of commission on the profits of managed companies which is charged by the managing agents is independent of the number of companies managed by a single managing agent. If managing agent A, for instance, manages 10 companies, the rate of commission paid by each of these 10 companies is not any lower because the same managing agent manages nine other companies, too.

The economies of management, ii any, therefore, accrue to the managing agent, not the managed companies.

As members of a group, the managed companies do share and receive many common services and facilities, but the availability of these services and facilities depends upon membership of the group, not upon a particular system of management. So long as companies A and B, for example, belong to the same group, both are entitled to share the group facilities, whether one or both are managed by managing agents or have some other form of management.

The managing agency system is superfluous in most business groups from the point of view of finance and marketing as well. The financing and marketing role of managing agents is now generally undertaken by their associates within the group and these associates are remunerated separately for performing that role.

Flexibility of Remuneration

The managing agents are remunerated on the basis of a commission on the profits of the managed companies. The definition of profits for this purpose and the scale of remuneration to managing agents

Table 11: Controlling Blocks in Inner Circle Banks and Insurance Companies
(Rs lakhs)

	1951			1958		
	Total	Ord	Pref	Total	Ord	Pref
No of companies	22			21		
1 Total share capital	9,62	8,91	71	8,43	8,35	8
2 Controlling Blocks	3,71	3,60	11	3,14	3,09	5
(2) as % of (1)	(38.6)	(40.4)	(15.5)	(37.2)	(37.0)	(62.5)
Holders of Blocks:						
a) Investment companies	89	89	—	88	88	—
	(24.0)	(24.7)	(—)	(28.0)	(28.4)	(—)
b) Banking companies	6	2	4	13	13	—
	(1.6)	(0.6)	(36.4)	(4.1)	(4.2)	(—)
c) Insurance companies	45	38	7	36	36	—
	(12.1)	(10.6)	(63.6)	(11.5)	(11.7)	(—)
d) Industrial companies	66	66	—	72	72	—
	(17.8)	(18.2)	(—)	(22.9)	(23.3)	(—)
e) Service companies	2	2	—	11	11	—
	(0.5)	(0.6)	(—)	(3.5)	(3.6)	(—)
f) Trusts	11	11	—	8	6	2
	(3.0)	(3.1)	(—)	(2.5)	(1.9)	(40.0)
g) Individuals in India	1,52	1,52	—	86	83	3
	(41.0)	(42.2)	(—)	(27.5)	(26.9)	(60.0)

Figures in parentheses under (a) to (g) are percentages of the amounts shown in row (2).

are laid down under the Companies Act, and have been elaborated further under various Government decisions. The managing agents are entitled to a minimum remuneration in the absence or inadequacy of profits, but receive commission on a sliding scale as the profits increase. This system of remuneration does appear flexible as compared with the payment. of fixed amounts to top management, but the flexibility is superficial.

As pointed out earlier, most, if not all. of the expertise obtained for the managed companies is generally debited to them, not to the managing agents. To the extent a commission does save on large fixed salaries to top management, it tends to be offset by the fact that the management secured in return for the commission is only part-time. The managing agents as a company, and their members as .individuals, are free to have other occupations, and any number of other management jobs in various capacities, even if these involve a conflict of interest.

Besides, in a protected market, the flexibility of the remuneration tends to be one way and that is upwards.

Expensive and Irrtitional

The managing agency system is an expensive, irrational and part-time system of management. Its abolition is necessary in order to rationalise the management of public industrial companies.

The removal of this system will not make any difference to the control and management of companies by groups. It will alter only the form, status, and system of remuneration of top management. For some time to come. that is. till there is a fundamental change in the structure and attitudes of management, even the association of the controlling families with the routine management of companies will continue.

The reform will, over a period of time, separate[1] the power to appoint and control management, which is bound to remain with the controlling families or their representatives, from the actual exercise of managerial functions. It will give an impetus to the building up of professional technical-cum-managerial cadres, the top members of which would be judged by their performance, not by their blood relationship and financial participation.

Phased Abolition

It would not, however, be wise to introduce this somewhat radical reform oversight. A phased programme should be drawn up for its abolition, step by step, in selected categories of companies.

The first step necessary for this purpose is to abolish the practice of banks (particularly the State Bank which started this practice) and financial institutions (ie, IFCI, ICICI. SFCs, etc) demanding guarantee by managing agents of loans to the companies under their management. These guarantees are meaningless for, the loans are nearly always secured against the assets of the managed companies and the guarantees cannot be honoured by any managing agent. none of whom has the resources to honour them, if called upon to do so. This practice could be abolished by Government and Reserve Rank directives.

Second. the restriction on the appointment of managing agents should be extended to all private companies. companies which are subsidiaries or joint subsidiaries of other companies, public companies in which the public is not substantially interested (as defined under Section 2 (18) of the Income lax Act, 1961). and investment companies. The employment of managing agents in such companies is merely a device to get the highest possible remuneration for so-called managerial functions, over and above the dividends earned from the substantial investments made by the controlling interests in these companies

Third, no managing agent should be allowed to manage less than three companies. Under the Companies Act. an individual can be managing director of not more than two companies. Since the managing agency system is said to provide an economical form of group management, it is logical to suggest that a managing agent should manage a larger number of companies than a managing director can. This provision will eliminate the practice of multiplying the number of managing agents within each group and giving them the formal management of only one or two companies.

The second and third steps will require appropriate amendments to the Companies Act.

Fourth, after taking the above steps. Government should exercise its powers under Section 324 of the Companies Act to notify that, with effect from specified dates, companies, the principal business of which is manufacture or processing in well established industries like cotton, jute, paper, sugar, tea and cement will not be permitted to have managing agents. To these industries may also be added rayon, though it is not yet well established, in order to prevent cotton companies from passing as rayon. 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.

Will Not Affect Control

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 investing public. in general, evaluates the performance and prospects of individual companies and is. at best, concerned with the group to which they belong, not the particular managing agent which manages them.

The elimination of the[1] managing agency system from these industries will not affect the control of groups .over their companies for the controlling blocks in them are. in general, quite substantial.

Companies engaged in coal mining, chemicals, heavy engineering, basic iron and steel, and power, should be permitted a longer period of grace for two reasons. First, the controlling blocks in most of the large companies in these industries are relatively small and the sudden termination of managing agencies might create dislocations. Second, the investment required in these industries is relatively large, their gestation period is long and they have a high priority in planned investment. Even in these industries, however, the managing agency system should be eliminated over a period of say, 15 years, for the argument's that apply to other industries ultimately apply to these industries also.