# BUSINESS MANAGEMENT

THE JOURNAL FOR EFFICIENCY

174

Contents

NOV - DEC 1961
Vol. I No. 6

# BUSINESS MANAGEMENT

**JOURNAL FOR EFFICIENCY**



EDITOR:
V. A. KURIEN, B. COM., F. C. A.

Published by:
Efficiency Aids Private Ltd.
40, General Patters Road,
MADRAS-2.

London Representatives:
M/s Publishing Distributing Company Ltd.,
Mitre House, 177, Regent St.,
LONDON - W. 1.



SUBSCRIPTION:

Single Copy Rs. 2/- One year (six issues)

| | | |
|---|---|---|
| India Rs. 12/- | U. S. A. $ 3 | Malaya M$ 8 |
| United Kingdom Sh. 21 | Burma K. 12 | Ceylon C. Rs. 12 |
| Pakistan Rs 12 | Japan Yen 1000 | Egypt Pi 250 |

(Postage Extra)

# Watch our next Issue

*for*

1. Modern Management in a Changing Economy (Part I)

   by **Dick Carlson** attached to Europeon Productivity Agency.

2. Designing for Quality Control

   by **A. C. Bhattacharya** A. M. I. P. E., A. M. A. I. I. E., A. M. I. LOCO. E.

3. Stores Control (Concluding Part)

   by an **Industrial Engineer**



# RESEARCH AND MANAGEMENT

THE subject of management has yet to take its own roots in the soil of India. So far the students of management in our country have not had very much choice except to read the contemporaneous thought on the subject in Western countries. No doubt the subject as propounded by experts in any country is of great value for us in India to give an insight into its real scope, magnitude and depth. However the value of the subject will be enhanced when the movement of management becomes the forging point of the Industrial Revolution of India. Only when it so develops it will be relevant to the realities and the situation and it will grow as a science and meet the particular needs at the present stage of Indian development.

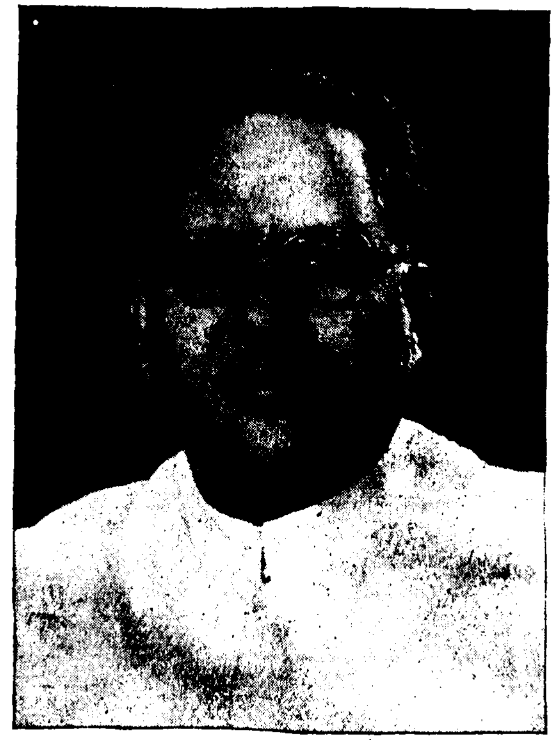
An essential pre-requisite for developing management as a science within India is the collection of data of existing facts and by a proper analysis find out the factors that produce them and their effects on the different enterprises and the general economy.

This Journal in its efforts to make its contribution for the development of scientific management has started a Research Department as part of its programme. Our first research project is "**Recruitment of Managers**". Cooperation of Industrial men, their managerial personnel and University men are solicited to make this new effort a success.

# OUR INDUSTRIAL MEN

**KRISHNA SWARUP**

*Chief Administrative Officer, Intergal Coach Factory.*



*Degrees, Honours, etc.*

B. Sc. from Agra University in 1929; A. M. I. Mech. E. in 1933; M. I. Loco. E. (London) in 1957.

*Educated at:*

Meerut College. Trained in East Indian Railway Workshops at Jamalpur. Attended Institute of Technology, Manchester.

*Career:*

After graduating in Science from Agra university at the early age of 19, Shri K. Swarup joined the Railways as a Special Class Apprentice in the year 1929. After his training in Jamalpur, he spent 2 years in England for further training on the British Railways. He was posted as Asst. Mechanical Engineer on the East Indian Railway in 1935. After serving in different posts he was deputed to the Indian Army in 1939 and in 1943 he was awarded the title of "M. B. E." Soon after, he was recalled to the Railways, and after serving in Lillooah shops for 2 years, was posted in independent charge as Works Manager of Carriage & Wagon Shops at Alambagh in 1947. In 1951 he was sent to U. S. A. and Canada for specialisation in Production Engineering, under the U. N. O. Fellowship. He was promoted in April 1952 as Deputy Chief Mechanical Engineer and, in July 1953, was transferred to the Integral Coach Factory. In November 1953, he was sent to Switzerland for 4 months for specialisation in the construction of Light-weight All-welded Steel Coaches and for procurement of machinery and plant. He was promoted as Chief Mechanical Engineer in May, 1958 which was subsequently re-designed as Chief Administrative Officer.

*Publications:*

Paper read at the Institution of Locomotive Engineers Meeting in March '58 on the "DESIGN & MANUFACTURING OF LIGHT-WEIGHT COACHES" for which the Stewart-Dyer Award has been given by the Council of the Institution in London.

*Recreations.*

Is a good sportsman and plays Golf and Tennis. Is a very keen Contract Bridge Player.





# Integral Coach Factory, Perambur.

## ITS EFFORTS FOR BETTER RAIL TRAVEL

One of the results of World War II was an increase in traffic making abnormal demands on transport capacity. Faced with the problem of coping with the unprecedented increase in passenger traffic, accentuated by the depleted and overaged stock and the inadequacy of capacity in railway workshops for manufacture of coaching stock, the Government of India decided that a separate railway coach building factory should be established to enable the Indian Railways to become self-sufficient in the matter of passenger coaches. The Integral Coach Factory at Perambur was accordingly set up as a commitment under the First Five-Year Plan, with the technical collaboration of the Swiss Car & Elevator Manufacturing Corporation, Ltd., Switzerland. The initial capital outlay for the Shell Factory was Rs. 7.35 crores and a further sum of Rs. 3.69 crores was sanctioned during the Second Five Year Plan for putting up a Furnishing Annexe. The Factory including its furnishing annexe and the township covers an area of about 500 acres and at present employs over 7,000 workers.

**Design of the Coach.**

In the earlier years the design of railway stock was inspired by the road vehicles of that period. It was soon found, however, that the railways could cope with heavier loads, and the evolution of railway rolling stock tended towards increased capacity together with the provision of comfort—a factor which was ignored till then. The constantly increasing speeds also made greater strength of coaches imperative. The growing competition from road and air transport forced the railway to revise its passenger service policy, which has resulted in the appearance of passenger coaches of light construction.

The Integral coaches produced in this Factory are of the modern light-weight all-welded steel construction, designed to give the maximum comfort and safety to the railway passengers. Being 7 tons lighter than the conventional coaches of 42 tons, considerable economy is effected in operational costs, as more number of integral coaches can be hauled per train, thus reducing the overcrowding in trains. Another important feature of this coach is its anti-telescopic end construction. The ends being plastic, i.e. designed to carry less stresses and strains, get buckled in the event of an accident, thus absorbing most of the collision energy and reducing the possibility of the carriages telescoping and causing risk to passengers. The carriage is also designed for improved riding by provision of shock absorbers, spherical roller bearings, special design of springs, etc. inside of the coach is sprayed with limpet asbestos to provide insulation against heat and sound.

**Performance during the Second Plan Period**

(i) *Increased Output*: According to the Technical Aid Agreement with the Swiss collaborators, this Factory was to achieve its maximum production of 350 coach shells a year. in progressive stages, in the 5th year from the start of production. Production was inaugurated by the Prime Minister on the 2nd October, 1955 and since then. year after year, the performance improved and in each year the record of the previous year was broken. The 1000th coach was turned out early in 1960—far ahead of schedule.

(ii) *Improved efficiency*: The efficiency of the Shops has been increasing from year to year as the men have been gaining experience and skill. The manhours spent on each coach shell have come down steadily from about 14600 at the start of production to about 8600 in the latest batch. The present manhours compare very favourably to those taken for similar coach production in Europe. Efficiency is expected to further increase as a result of the Incentive system of payment which has been introduced in I. C. F. from January, 1960.

(iii) *Reduced cost*: The unit production costs in the I. C. F. have been coming down steadily from the initial Rs. 186 thousands to the present about Rs. 80 thousands inclusive of overheads and depreciation.

(iv) *Self-sufficiency*: Before the I. C. F. went into production, most of our coaches and underframes were imported from abroad and considerable amount of foreign exchange was required to meet the demands of the Indian Railways. In the 13 years since our Independence, the Indian Railways have become self-sufficient in their railway coach requirements and not a single coach is now imported.

(v) *Diversified Production*: The original idea was that the I. C. F. would produce only a standard shell, which could be furnished to any class of coach required. With the rapid industrialisation of the country and resulting higher standard of living of the masses, the demand for better amenities and comforts also increased. While laying stress on the improvement of amenities and comforts to third class passengers who constitute the bulk of the traffic on the Indian Railways, this Factory has also now geared up for meeting the varied requirements and standards of the travelling public by designing different types of coaches. The types of coaches produced till the end of the Second Five Year Plan are indicated below:

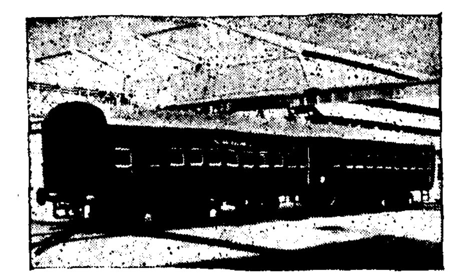




| Type of coach | Number |
|---|---|
| 'T' (Integral) | 1047 |
| 'TLR' (Integral) | 121 |
| 'TCN' (Integral) | 150 |
| 'T' (Conventional) | 115 |
| 'TLR' (Conventional) | 150 |
| 'F' (Integral) | 155 |

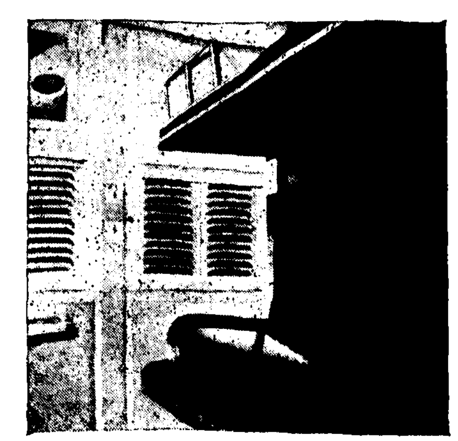
To give an idea of the amenities and comforts provided in these coaches, the interior layout of the various classes of coaches is shown in the sketches 1 to 3.

Fig. 1



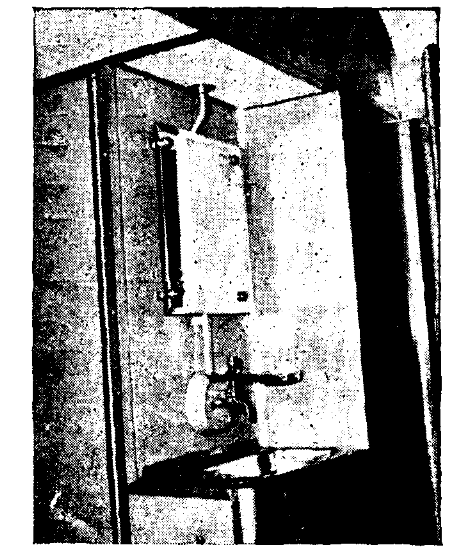
Third Class Integral Coach ready for despatch.

Fig. 2



An interior view of a First Class Coach recently built by I C. F.

Fig. 3



Some of the amenity fittings provided in a 3rd class sleeper coach

(vi) *Export market*: Having achieved self-sufficiency for the Indian Railways, this Factory is now tapping the export markets. The I.C.F. has already quoted against Pakistan and Argentine Tenders for coaches. In Pakistan, we were the lowest out of the 7 countries that competed in the global tenders and in the case of Argentina, quotation for I. C. F. coaches was the second lowest out of 28 tenders received from 15 different countries. The very fact that the cost of I.C.F. coaches is competitive in the world-market proves that the Government undertakings can run efficiently and earn the badly needed foreign exchange for the country.

**Proposals for the Third Five Year Plan.**

(i) Encouraged by the excellent performance during the Second Plan Period and the good team-spirit existing amongst all grades of staff at I.C.F. this Factory has embarked on the ambitious plan to produce 3735 coaches during the third Five-Year Plan commencing from April 1961. This programme includes coaches even for the Metre Guage, Electric Multiple Unit Stock and also Diesel Railcars required for the Indian Railways. The proposed programme is as follows :

| Type | B. G. | M. G. | N. G. | Total |
|---|---|---|---|---|
| Ts. | 23 | 1198 | — | 1221 |
| TLRs | 235 | — | — | 235 |
| Fs. | 462 | — | — | 462 |
| FTs. | 592 | — | — | 592 |
| Motor & Parcel Vans | — | 343 | — | 343 |
| Motor Vans | — | 73 | — | 73 |
| EMU (12 ft. wide trailers) | 612 | — | — | 612 |
| Railcars | 67 | 120 | 10 | 197 |
| Total | 1991 | 1734 | 10 | 3735 |

(ii) The construction of the Permanent Furnishing Factory is now in full swing. Rs. 1.5 crores out of Rs. 3.69 crores has already been spent in the II Plan and the balance of Rs. 2.19 crores will be spent during the III Plan to complete the Permanent Furnishing Unit. By providing a furnishing unit, all the shells that would be turned out from the Shell Unit will be furnished and made available to the Railways without any loss of time. It will also enable standardisation and providing better comforts to the passengers.

(iii) For full working of the Second Shift which will enable obtaining further increases in production, extension of certain workshops and additions in machinery and plant at a total cost of Rs. 45 lakhs is envisaged during the III Plan.

(iv) The factory has built a Staff Colony provided with about 841 units of quarters. Another 257 units are programmed to be built in the Second Shift scheme. Further, in view of the acute shortage of accommodation in this part of the Madras City it is proposed to build 500 more staff quarters during the III Plan at the rate of 100 per year at a total cost of Rs. 52.5 lakhs. Thus, the number of quarters provided in the Staff Colony would be nearly doubled at the end of the III Plan.

(v) Since October 1955 when this Integral Coach Factory first stirred into productive life, its story has been one of continuous development and growing productivity. The object with which this factory was set up has been more than fulfilled. Having achieved self-sufficiency in matters of passenger coaches for the Indian Railways this factory is now looking forward to building coaches for the export market. Our cost as well as quality in production is very competitive and we have full hope that very soon we will be able to get orders from some foreign countries for their coach requirements and thus become one among the foreign exchange earners for India.

**Public encouragement and co operation**

It can perhaps be said with a measure of truth that this factory has already come to be looked upon as a shining symbol of India's industrial development in post-Independence period. Thousands of visitors from this country and from abroad went their way through this factory in appreciation of our efforts. We are continually striving to improve the layouts and provide more and more comforts and amenities to the passengers, and hope that our efforts in this direction will also be appreciated by the public and they will co-operate with the railways in maintaining these integral coaches well. Our experience of today when costly fittings and improved finishes are removed or spoiled by vandalism discourages us from further improving our finish. We therefore, beseech the public to treat these coaches as their own property and look after them well.

----



# THE FIRST LINE SUPERVISOR

## DO WE UNDERSTAND HIS ROLE

**RAM S. TARNEJA**

Dr Ram S. Tarneja is Director, Graduate Department of Business Administration, Duquesne University, Pittsburgh, Pa. He is spending the current academic year in India as a Faculty Research Fellow of the Ford Foundation. Educated at the Universities of Delhi, Virginia and Cornell, Professor Tarneja has been on the Faculty of the School of Business Administration at Duquesne University since last four years. He has served as a Consultant to several U. S. and Indian firms. He is the author of several professional articles. His forthcoming on *Dynamic Management* will be published shortly.

The levels of management are both varied and complex. The first line supervisor is the person who directly supervises operatives and other production employees. The first line refers to the line of command at the bottom of the management layer. Since the position of the first line is of a marginal nature between management and labor, it becomes crucial to study the special position and problem of this level of management.

Perhaps the most useful approach to consideration of the role of the first level supervisor is through a series of questions. The questions raised deal primarily with management's view of and relationship with the first level supervisor, the supervisor's view of management and of his own position, and the worker's view of the first level supervisor.

**What is a first level supervisor ?**

For purposes of the present discussion, the first level supervisor can be characterized as a member of the first level of management, not covered by a union contract, not on an overtime pay basis, and responsible for work that other people do. (for example, a foreman or a jobber*.)

**What does management expect of the first level supervisor ?**

Some of the functions of first level supervision are :

1. Directs and leads others (the workers under him).
2. Sees that subordinates are trained.
3. Hires and fires (suspends until hearing).

* Because of lack of Uniform terminology in India, it might be mentioned here that in some cases, *Foreman* belongs to the middle management category. However, in this article, *Foreman*, refers only to First line supervisor.

4. Disciplines and commends.
5. Promotes or recommends for promotion.
6. Recommends salary increases.
7. Does paper work ; keeps records.
8. Interprets policies and procedures to subordinates.
9. Applies labor contract.
10. Prepares work schedules and assigns work.
11. Communicates subordinates feelings up the line.
12. Communicates management's feelings to subordinates.
13. Handles first step in grievances.
14. Prepares himself for promotion.

In a U. S. survey, top management people were asked what they wanted primarily of first level supervision. Of those who responded, 78% replied that they primarily wanted production ; in other words the primary role of the first level supervisor was to "get the work out." A small number (7%) stated that they wanted "good human relations" from the first level supervisors, and 15% replied that they wanted both production and good human relations. The preponderance of replies emphasising production as the main function expected of first level supervision is understandable and exemplifies a common top management view toward the job of first level supervision—the need to turn out work, with relatively little thought to *how* this should be accomplished. It can be safely assumed that usually in the eyes of top management the main responsibility of the first level supervisor is to see that the work of day to day operations gets done.

**Is the first level supervisor really a part of management? Does he really have control over the functions for which he is responsbile? Does he really have the authority to hire and fire, to promote, to give pay increases?**

There is some question about clear understanding on the part of the average first level supervisor of his role on the management team. While his position is defined as part of management, does the first level supervisor really feel that he is part of management? While certain functions are assigned to the first level supervisor, does he really have an opportunity to carry out those functions as he thinks they should be carried out? Has the first level supervisor's role in the organisation really been made clear to him? Does he understand his job and what is expected of him? It may be fruitful to examine his relationship up in the management line and down to his subordinates.

**How does the first level supervisor look upon higher management?**

In considering how the first level supervisor looks upon his own position and upon higher management, the results of a recent survey made by the author in industry in the Bombay area, may be of help. When asked "What are your main difficulties? the supervisors listed the following four items as the most important.

1. Getting orders without explanation.
2. Incorrect Information.
3. Management indecision.
4. Lack of cooperation from workers and department heads.

Absenteeism, unions and strikes were at the bottom of this list. It can be concluded that most of the first level supervisor's frustrations come from his relationships with those above rather than below.

When the same supervisors were asked what they wanted from management, what would make their jobs easier and/or better, their replies (in order of importance or frequency) were:

1. Cooperation from higher management.
2. Co-operation from fellow supervisors.
3. Better explanation of management policies.
4. More authority.
5. Adequate training.
6. Prompt and adequate information.
7. Reasons for changes.



It is obvious that satisfactions are derived from wanting to be effective and by being regarded as a real member of the management group.

**What does the worker expect of the first level supervisor?**

The worker's view of his foreman or chief provides a somewhat different perspective to the role of this first level of management. What the worker expects or wants from the first level supervisor include:

1. Fairness: in work distribution (overtime, shifts, etc.) and in appraisal (for pay increase, promotion, etc.)—consideration of total performance, not isolated instances.
2. Wants supervisor to know the worker's job and to train him.
3. Wants supervisor to make clear what he wants from the worker, no conflicting orders.
4. Wants supervisor to tell him where he stands, how he is doing.
5. Wants supervisor to tell him what is going on in the company.
6. Wants supervisor to listen to the workers, ideas, opinions and problems.
7. Wants supervisor to handle grievances promptly, without passing them to others.
8. Wants supervisor to represent workers up the line.
9. Wants supervisor to know and be competent at his own job.
10. Wants supervisor to be respected by higher management.

It can be seen that, while management tends to place emphasis on the production aspects of the first level supervisor's job, the workers place more emphasis on the human relations functions of their supervisors (at the same time not leaving technical competence out of their expectations).

**What factors of supervision seem to have the greatest effect on employee morale?**

In an American study of high morale, high production groups and low morale, low production groups, workers were asked which of several activities they had observed their supervisors performing.

| What Was Observed | By High Morale High Production Groups | By Low Morale-Low Production Groups |
|---|---|---|
| 1. Enforces rules | 54% | 54% |
| 2, Makes work assignments | 67 | 69 |
| 3. Supplies materials and tools | 36 | 41 |
| 4. Recommends pay increases, promotions and transfers | 61 | 22 |
| 5. Keeps employees informed | 47 | 11 |
| 6. Tells employees how they are doing | 47 | 12 |
| 7. Hears complaints and grievances. | 65 | 32 |

The relatively small differences between high and low morale groups on the supervisor's performance of the duties of rule enforcement, work assignment and the supplying of tools and materials would indicate that these functions of supervision do not affect morale significantly. The greater differences between high and low morale groups in terms of the other four functions of supervision seems to indicate that performance of these activities by the supervisor contributes to high morale and in turn to high production. This premise further bears out the conclusion that the workers expect or want more from their supervisors than technical competence, that they want more emphasis on human relations functions on the part of supervision.

**Are high production and good human relations inconsistent?**

Many studies have shown correlation between high production and high morale, and that high morale is an important ingredient for high production. The above discussion has indicated that management is more often concerned about the technical aspects of the supervisor's job, while the workers want their supervisors to be more people-oriented. Resolution of this seeming disparity between management's and the workers' demands on the first level supervisor lies in the recognition that *both* production and good human relations are necessary and that they are not inconsistent. Furthermore, it has been shown that in the long run the best way to get high production is through good human relations and through people-centered, rather than production-centered, supervisors. Recent studies bear this out in many companies. We know now that if a supervisor gives relatively little attention or effort either to production or to his employees, production and morale or low. If he gives relatively more effort to production, output increases to some extent but morale remains low; but if he gives more effort to employee relations, production increases even more and morale is improved.

Thus, it can be seen that high production and good human relations are not inconsistent and that attention to the latter brings greater employee satisfaction. It is not possible to say in what proportion attention should be given to these two aspects of the supervisor's job because every situation differs. However, in general it can be said that the supervisor has to make a choice between primarily looking after production or looking after his people. If he chooses the latter, he will get higher production and higher morale.

### What are some of the other problems in the relationships and responsibilities of the first level supervisor?

During the course of discussions of the role of the first level supervisor, the groups raised two other problems related to this topic. These are.

A. The selection and training of first level supervisors.

B. The problem of shift supervision.

### A. The Selection and training of first level supervisors.

A frequent problem is the first level supervisor who is a good technical man but not well qualified for a supervisory position in terms of human relations skills. This problem may be a matter of selection or of training. Certainly, besides technical competence, the person who is selected for a supervisory job must have at least an aptitude for dealing with people and for acquiring the necessary non-technical supervisory skills. Therefore, an important area for training of first level supervisors is that of helping them to become people-centered and to acquire non-technical supervisory abilities. A related area for training is connected with employee discipline and the prevention and/or handling of grievances. Perhaps the best judges of the type of training needed by first level supervisors are the supervisors themselves. In a survey, one group of supervisors expressed the desire for the following types of training.

1. Improve ability to sell ideas to the boss.
2. Improve own performance.
3. Learn to evaluate employees objectively.
4. Improve written and oral expression.

The importance of wise selection and adequate training for first level supervisors cannot be overstressed. At the same time, such training is of little value if the supervisor's superior does not understand his role in helping the supervisor to do an effective job. Thus, the attitude and example of higher management are even more important than the formal training given to the first level supervisors.

### B. The problem of shift supervision

The last decade has witnessed an increasing introduction of second and third shift working. In some industries like the textiles, particular supervisors are attached to particular groups of workers - all of whom rotate periodically as one group to work in different shifts. In other industries, supervisors are permanently attached to certian shifts and therefore, they have to supervise different work groups.

This practice of supervising a shift rather than a certain group of employees may serve the purpose of broadening the individual supervisor in his knowledge of several operational functions. There are, however, the attendant problems of coordination and of establishing good man-chief relations. If the premise is correct that the chief or foreman has to look after his men in order to get their willing cooperation, ways will have to be found to do this. In other words, the role of the first level supervisor is to get out the production for top management, but he must be able to develop good human relations with his subordinates in order to deliver.

### Conclusion :

The first line supervisors or foremen have been the center of much management attention for several decades because of the recognized importance of their face-to-face relationship with the rank and file workers in getting out the work. Management's attitude that the supervisor's job is to "get out" production and to be responsible for achieving certain targets needs to be changed. The human aspects of supervision are too important not to be neglected. Every chief executive must try to understand and grasp the importance of this level of management in his organization. It is hoped that more attention will be given to this problem than has been the case thus far.

Even in a country like the United States, the role of the first line supervisor is not clearly known. There is a National Institute of Formen which is actively trying to help the cause of this "middle" men. Our own University - Duquesne - was the first one to start courses of foremanship training for working people in the Pittsburgh area. Now that India is fast developing industrially, it would be worthwhile to look at this problem in the interest of improving industrial efficiency.

# THE ROLE OF PSYCHOLOGY IN BUSINESS MANAGEMENT

(Continued)

## COUNSELLING AND SELECTION

K. N. SHARMA
(Indian Statistical Institute, Calcutta)

**In the first article in this series published in Vol. I, No. 4, (July-August), pp. 21—25 of this journal nine broad fields of business management where Psychology plays its role, were included and it was announced that the elaborate discussion of these fields would be included in the succeeding articles. *In the present part of the series the application of psychology* will be discussed in relation to Counselling and Selection of the workers.**

### Counselling

The problem of vocational counselling is that of assisting an individual who possesses certain assets, liabilities and possibilities to select from various occupations one that is suited to him and then to aid him in preparing for it, entering upon and progressing in it. If all individuals were alike this problem would not exist for no one would be better suited to this or that occupation than would all others. If all occupations were alike there would again be no question of choice and therefore no question of vocational counselling. If we just go through the annals of human civilization we find that in primitive societies this situation was approximated as far as occupations are concerned. It was only as different vocational goals emerged that this need arose and this need became more intense as the number of such goals multiplied.

The process of vocational counselling continues in the life of the individual over a long period of time. It is not a single act or a brief series of acts involved in telling one what vocation he should follow as some seem to think. It includes acquainting the individual with a wide range of information concerning himself and concerning occupations. It includes helping one individual to work out for himself an adequate vocational plan and to proceed in accordance with that plan. It includes aiding the individual to acquire a method of procedure in dealing with his vocational problem that will enable him to make wise changes in his vocational plan at any time in his life when changes become necessary or desirable.

If follows from the above discussion that vocational counselling has two fundamental purposes: (i) to help people make good vocational adjustments; and (ii) to facilitate the smooth functioning of the social economy through the effective use of manpower. Each individual has certain abilities, interests, personality traits and other characteristics which will make him a happier man, a more effective worker, and a more useful citizen only if he knows what these traits are and how they may be changed into assets. Thus vocational counselling may be considered a dual process of helping the individual to understand and accept himself, and of helping him to understand and adjust to the occupation. Here the question, what are the psychological processes necessary to bring about this understanding which experience alone fails to produce?', comes to our mind. The answer is not very difficult to find when we take vocational counselling as a process of helping the individual to ascertain, accept, understand and apply the relevant facts about himself to the pertinent facts about the occupational world which are ascertained through incidental and planned exploratory activities, and it is here when psychology helps the counsellor to understand the counsellee's abilities and personality characteristics.

The techniques of counselling vary from case to case and from counsellor to counsellor, depending partly upon the counsellee's state of readiness and partly upon the time available to the counsellor, the degree of skill he has attained, his philosophy of counselling and above all his knowledge to understand the human being as a whole.

Counselling may be directive as well as non-directive. In the direct counselling it is assumed that since the counsellor obtains the significant information by technical methods and is better qualified to understand their significance than the counsellee, he should seek to convey the information to the counsellee by rational means and to get him to adopt an appropriate plan of action. The insight-gaining processes of the counsellee are affective and not cognitive, they are emotional rather than rational. When objective evidence is shared with the counsellee his subjective reactions to it need to be aired and examined in a way peculiarly suited to non-directive interviewing. More widely used type of counselling is non directive. Non-directive counselling is based on the assumption that the individual has, within himself, the resources necessary to the solution of his own problem. All that he needs, is a permissive situation, one in which he can release his energies and bring these resources into play. It is the counsellor's role to create such permissive situation as to allow the counsellee to release his energies. He does this by creating a warm and understanding atmosphere, by accepting and reflecting the feeling of the client and thus making it possible for the client to work out his problem in his own way. As non-directive counselling originated in the treatment of behaviour problems and whatever has been found useful in clinic cases may not be applied to normal cases and thus more research needs to be carried out on this question before a definite conclusion can be drawn. Moreover a larger percentage need vocational counselling but have no significant personality problems and are ready for progress.

From the above discussion it may be concluded that the counsellor, equipped with the knowledge of psychology, information about the various occupations and the economic and social conditions of the business world, will be able to direct an individual seeking guidance to the proper job suited to his abilities, interest and other personality characteristics and thus the dual purpose of vocational counselling will be fulfilled.

## Selection

Proper selection of new employees is a pre-requisite for the development of an effective working force in any organisation. A person in unsuitable work is either unable to make the grade or works under physical or psychological strain which gives rise to frequent absence, unsatisfactory work, breaches of discipline or conflict with fellow workers or supervisors. Thus the aim in selecting new employees should be to ensure, as far as possible, that they are engaged in jobs where they give a fair chance of being successful and at the same time well adjusted to their work and its surrounding circumstances. The primary purpose of personnel selection is to predict, from a field of applicants, those persons who will be suitable and most successful in a particular post. Accurate predictions result in benefits to both employer and applicant and it is only in recent years that the leading executives have become increasingly aware of the importance of the people in their organisations. The present industrial executive knows that despite of the use of all the impressive machinery and complex mechanical process of modern industry, there can be no successful business without effective human team work. People operate machines and control process, people handle mountains of paper work, people sell products, people develop new ideas, people make and administer decisions and people provide the leadership and supervision which every successful enterprise needs.

Most of the industrialists, in the developed and the developing countries, feel that building and maintaining an effective human organisation is the most important of all their managerial functions. These executives consistently point out that the key to the successful operation of a business lies with the selection, placement and the treatment of the individual employee. Each individual needs to be on the job he likes and does well and wishes for recognition for his achievement. In short, they feel that each individual employee's job must provide security, job satisfaction, challenge, and opportunity as he may need and if it does not, he will be unable or unwilling to fulfil his proper role as an effective member of the work-team. From the business point of view it may be said that the management has a direct obligation, which it cannot afford to ignore, to carefully select and correctly place each employee. Accurate prediction of suitability of the successful worker has two-fold benefits. For the employer the benefit lies in the reduction of production costs due to incompetent persons and also due to less competent persons who never reach high productivity. For the applicant, the benefit of accurate prediction lies in the fact that he will not be employed where he cannot effectively utilize his skills and possibility of losing the job, because he is not suited for it, is reduced. Inaccurate prediction conversely, results in increased production costs for the employer and increased risk of job failure for the applicant.

Predictions concerning the behaviour of human beings are often wrong and can never be precise. But they are much less likely to be wrong when objective and systematic methods of obtaining and weighing the relevant evidence are used than when the decisions are based on superficial judgements. Until recently the personnel selection had been influenced by superficial and popular superstitions and the personnel executives used, while choosing employees such incredible standards as these: A person whose eyes are close together is supposed to be dishonest; a limb handshake is supposed to indicate weak character; a square jaw supposedly indicates a strong character; tall and vigorous men are supposed to be better salesmen because they are impressive and no one under six feet in height can ever be a good salesman; a receding chin supposedly indicates lack of sales agression; blond men are supposed to be sissies; women who go without stockings in the summertime and the girls who roll their hose are supposedly



immoral; blondes are not trustworthy; no one who has been on relief is honest; but wives of Bible students can always be trusted; only blue-eyed men should be employed, since brown-eyed men are suitable only for making love and playing the guitar and so on. Since there is no scientific evidence to support any of these notions most enlightened executives will agree that there is no place for such standards in a sound employee selection programme.

When the industrial executives were trying to find out some better methods of personnel selection than the old above mentioned standards, modern psychologists came for their help. During the first World War for use in military selection the methods of personnel selection developed by the psychologists of that time were used for the first time. These methods were improved upon and applied to the problems of educational, industrial and governmental personnel selection during the period between the two World Wars and were utilized in comprehensive testing programme of military personnel in the Second World War. Now these methods have become standardized and can be adapted for a variety of selection programmes. These methods integrate traditional producers with new techniques. They provide more information about the candidate than the traditional methods and in these methods the reliability and validity of information can be assessed.

It would not be out of place to stress upon the importance of psychology and the role played by psychologist in any personnel selection programme. Psychology, as the scientific study of human behaviour, seeks through objective method to understand, explain and predict human behaviour. Individuals differ too widely in their tests, talents and temperament to be readily amenable to scientific analysis and control. As each one is usually convinced that he knows what is best for himself and his neighbours, he resents being studied, classified and regulated by psychologists. He fears that this involves forfeiting his free choice and being directed in all his doings from birth to the grave by an army of scientific experts. But this suspicion is hardly warranted as the psychologist admits more readily than does the opinionated layman, that he is not ominiscient about human nature and prefers not to pronounce definite decisions except in those rare instanees where he has strong scientific proof of their validity. A good psychologist recognises and allows as much scope as possible, for individuality. He never willingly dictates a course of action, but attempts rather to classify the situation confronting the individual, and to draw attention to all the relevant factors, so that the individual may himself arrive at a wise and satisfying solution. As the personnel selection involves the examination of the temperament, talents, tastes, in short the behaviour as a whole, the psychologist with his specialized knowledge of psychology, the science of behaviour, and his experience in the field of prediction of human behaviour will undoubtedly be more accurate in his decisions for choosing an employee for a job suitable to his abilities, aptitudes and other personality characteristics.

The selection methods developed by the psychologists aim at the evaluation of the relationships between a large number of factors in both the applicant and the job. Vocational success is not merely determined by having the right amount of intelligence; the right aptitudes and skills, or by having or not having such complicated personality factors as introversion – extraversion or dominance—submission. Job success is the result of many highly complex relationships involving the individuals, the associates, supervisors, the job and the condition under which the job is to be performed. To evaluate the interplay of all these factors correctly the personnel selection has to be based upon certain principles.

An effective personnel selection programme will be based upon certain guiding principles of personnel selection keeping in view the benefits for both the employer and the employee. The design of selection procedure must be tempered by considerations of cost and economy of time, labour and capital expenditure. This cost should be balanced against the cost of faulty selection in terms of the time, labour and capital expenditure resulting from an inefficient, inadequate labour force. Higher initial outlays for selection purposes are suitable where chosen applicants undergo extensive training, receive relatively high salaries for the period where they cannot contribute effectively to production, whose inefficiency affects the work of a large subsidiary work force. Lower cost of selection programme is called for where the training period is short, the salary relatively low, the inefficiency does not affect the work of others, and where there is no difficulty in replacing failures in selection. Other things which should be taken into consideration before setting up this programme, are of determining the qualifications and the required skills for performing the job for which the selection programme is undertaken. The personnel manager must draw upon previous research to determine what will be the most appropriate method to obtain the desired information. In some cases the previous research reports may not give any indication in this respect but definitely the information contained in them will be of immense value to the personnel manager for modifying the methods and also in devising new methods. Continued research is necessary to appraise the quality of the selection procedures utilized. Operational features of the programme must be designed before hand for its efficient functioning. The operational features include the designing; developing; reproducing of the test material; handling; storing administering (controlled standard conditions of test administration including time limits, sequence of tests, instructions and collection of materials), scoring (standard and reliable) of the tests; and reporting of the test results and other data to employer. These features should be taken into consideration for their service as well as research value. It should also be borne in mind that the statistical analysis done is useful to the employer and should provide basis for research. Standardizing of the scores on the several tests, as the scores on these tests will vary in numerical range, mean and standard deviation, is very essential so that they are equivalent. This may be done by converting each score into an index of the person's standing in relation to the remainder of the group tested with him. This index, popularly known as 'Standard Score', is of immediate value to the employer as it can be readily interpreted for selection of employees. For research purposes and continued appraisal of the selection programme further statistical analysis will be required. The reliability of the methods, the relationships among the tests and the validity of the methods must be determined in order to improve selection methods to be used in future.

The utility of the sound personnel selection as enumerated in this article, is beyond doubt. The success of any business depends, to a great extent, on its employees who are recruited by the personnel department of the business concern. But it is very unfortunate that barring a few big industrial concerns in India, most of the business concerns do not have any personnel department. For those which have the personnel departments it can be said that personnel managers are under obligations to others and the recruitment of workers, especially for higher jobs, is influenced by way of recommendations and not by applicant's merits. Moreover, no checkup programme is followed in the personnel departments, which is very essentials Periodic checkups to see that selection procedure are following the standard pattern; to insure that the proper forms are being used correctly, are being fully answered, the applicants are being processed as speedily and thoroughly as possible; to see that interviewers are not permitting unconscious biases to creep into their evaluations, or that some irrelevant factors are not being overly stressed in the final judgment on applicants; on employee turnover and productivity reports for evidence of the effectiveness or lack of it in the selection procedure to be certain that the personnel staff is not too small nor too large for the applicant load, are of vital importance to keep the soundness of the selection programme alive.



# *STORES CONTROL*

By

*an INDUSTRIAL ENGINEER*

**Introduction.**

If a manufacturing organisation purchased each item of material or part required against each customer's order after the receipt of the order and if delivery could be made as and when the manufacture of the product is completed, then this would certainly appear to be an ideal state of affairs. Each supplier of raw material or component parts would then be maintaining the respective stores on behalf of the manufacturing firm, who would not have to invest money in carrying stocks of raw materials or component parts.

However, in normal practice a compromise has to be made in regard to the above and any manufacturing organisation finds it necessary to carry stocks, at least of some of the commonly used items. The factors which favour purchasing of quantities in excess of the immediate requirements and carrying of stocks include:—

(a) Ability to deliver to customers the products ex-stock or within a specified time and not be completely dependent on the suppliers of raw materials or components. This is an important point when facing competition from other firms.

(b) Economics arising from discounts on bulk purchasers or favourable market prices and from processing a fewer number of purchase orders.

On the other hand, it is not advisable to carry too large a stock in view of increase in costs arising from:—

(a) Interest on the investment in stocks.

(b) Insurance charges.

(c) Stores keeping and handling.

(d) Deterioration and risk of obsolescence.

The influence of these factors can be analysed and a system evolved for ensuring optimum efficiency in regard to the organisation of a stores department. These are briefly discussed in this paper under the following three heads:

(a) Standardisation.

(b) Stores organisation.

(c) Inventory control.

**Standardisation.**

Once the basic design of a product or range of products is finalised, a programme has to be initiated with a view to reducing the variety and sizes of the components required for the final products. It is claimed that in one organisation where over 2500 parts were required to assemble 3000 types and sizes of a product, after standardisation only about 150 parts were adequate. The consequent saving in inventory cost and storage, handling and record keeping expenses are obvious.

It is best to entrust any standardisation programme to a small high powered committee comprising representatives from the design, production, purchase, accounting and sales department.

The objective of this committee should be to reduce the variety and sizes of components required and prepare a list of standard sizes, which should be the minimum consistent with the ruling price differentials. All departments should thereafter use only standard items wherever possible unless there is a substantial advantage or economy in using a non-standard item.

Details of the standard and non-standard items should be made available to all departments concerned. This information should be prepared in two forms, viz.

(a) A coded list of all items, indicating standard and nonstandard sizes.

(b) Specifications for materials to be kept in stores.

Numerical coding systems can be evolved which readily indicate class of material, type and size. The first one or two digits can indicate material class, the next the sub-class and the final digits—the size of the item. A completely numerical system facilitates sorting and handling of stock cards, requisitions for stores, and simplifies listing of stores items in a numerical order.

Alternatively, systems combining alphabets and numbers can be used. Some find this easier to remember, particularly, if letter combinations representing the first letters of the corresponding words are used.

Material specifications should be prepared for each item giving details of.

(a) Description of material giving its physical, chemical and other properties.

(b) Methods of applications and special points to be observed.

(c) Alternative materials suitable and comparative costs.

The Standards should be constantly reviewed by the committee, which should meet regularly (preferably twice a month), for considering further simplification and adoption of cheaper materials or processes. In this work it would be desirable to enlist the interest and participation of all staff, who should be invited to submit suggestions to this committee.

(13) In order to obtain optimum benefit from standardisation, maximum use should be made of the standard sizes. The usage of standard items should be compared each month as the percentage in value (or quantity) of the standard items used to that of all items used.

**Stores Organisation.**

The stores organisation has the following responsibilities:

(a) Receiving and storage of materials in good condition.

(b) Issuing materials when required.

(c) Keeping proper records of all transactions in regard to materials.

The efficiency of any stores organisation is very largely dependent on a well-laid-out stores with good storage and handling facilities. The location of the stores should be central to the various stores consuming departments and also have road (and rail if any) approach.

The stores building should aim at optimum utilisation of cubic space and so this load capacity of the flow should be adequate to permit stacking of materials to the maximum height consistent with ease of handling and good ventilation and lighting. The design of the building should be such as to obtain the lowest capital cost per unit cubic space (i.e. cubic feet) which can be effectively utilised for storage. There should be good ventilation and also adequate protection against weather, dust etc. Glass panelled windows and exhaust fans are some items which would be useful.

The layout of shelves and aisles will largely depend on the type of material to be stored, the quantities to be stocked and extent of mechanical handling which is envisaged. A variety of equipment is available in the market and full information is available from their makers.

The following are some points which should be considered when planning the interior arrangement of a stores:

(a) Shelves and bins with gravity feed so that the material is automatically fed to a point which is easily accessible.

(b) Serial numbering of racks and bins for facilitating location of items.

(c) Palletised storage and use of Fork lift trucks or trolleys.

(d) Roller conveyors, belt (or slat) conveyors or overhead mono-rail chain conveyor

(e) Jib or gantry cranes

(f) Direct indicating weighing machines.

In all storage of materials it is desirable to stack new supplies in a way that First-in items are issued out first so that risk of deterioration in storage is minimised. It may be useful to attach tags showing date of receipt on the different batches of materials.

**Stores Issues.**

The function of issuing materials from the stores is perhaps the most disorganised one in a number of organisations in India. Indents or requisitions for materials are received at the stores on a piece-meal basis at all times of the day (or shift). The consequences are delays in issues with possible loss of productive capacity of men or machines, harassment to stores personnel and increased clerical work.

It would be a good plan to arrange for all normal requisitions to reach the stores about 24 hours before the material is required. If an item is not available in the stores, the indenting department should be immediately informed and arrangements made to supply a suitable substitute, if any.

The stores clerk should sort out all the requisitions and group together those for materials of the same class. The stores assistants should then collect the required amounts of each material and place them in department-wise containers or racks.

The above should be completed by noon each day and the actual issue of material should take place in the afternoons. Departmental men may collect the items from the stores or the stores can arrange to deliver same to each department.

If any material or item is required urgently by any department, then an "Urgent Requisition" (preferably printed in different colour) should be sent to the stores-in-charge. A column may be provided for stating the nature of the contingency necessitating the issue of the material. The material should in such cases be issued out with the least delay.

It is however advisable to send a copy of these Urgent Requisitions to the Factory Manager, so that he may exercise an overall control on the number of such issues.

(To be continued)

# EXECUTIVES OF INDIA

## S. T. RAJA

*Managing Director, Hindustan Antibiotics. Ltd.,*

*Born*: *1914.*

Educated in Elphinstone College, Bombay; Govt. Law College, Bombay; King's College London; University of London; and Middle Temple.

Mr. Raja joined Government service in 1946 as Director of Food & Civil Supplies. He has occupied many important posts in the Government before joining The Hindustan Antibiotics Ltd. He believes in assuming responsibility and taking quick decisions, his motto being "even a hasty decision is better than indecision."

He is a member of the Faculty of Commerce of the University of Poona and President of the Rotary Club. He is also member of the Advisory Board of the Central Public Health Engineering Research Institute and a member of the development council of the Government of India, for Drugs and Pharmaceuticals.

## B. K. CHAUDHURI

*Born*: *1927.*

*ACADEMIC QUALIFICATION*: Master of Commerce of the Culcutta University.

*CAREER*: Joined Volkart Brothers, Calcutta, as a Junior Clerk in 1944. Went to Singapore in 1946 to work as a Court Reporter at the International (Minor) War Criminals' Tribunal. On return to India served a Travel Agency Firm and joined GANGES in late 1950. Promoted to the position of Branch Coordinating officer in 1954. Appointed the Secretary of the Company in 1956 and concurrently appointed the Commercial Manager of the Company in 1958.

Travelled extensively throughout Egypt, the Continent and the U.K. as well as Japan and other Far Eastern countries.

# Recruitment of Managers

## RESEARCH PROJECT No. I

BUSINESS MANAGEMENT has pleasure in announcing Research projects for the benefit of its readers, industry and business. It is by means of a continuous exchange of ideas and opinions and periodical reviews of progress and practices that the management science can be developed and practical applications promoted.

Our Honorary Research Director, Sri M. S. Srinivasan * will be handling the research and survey projects. The success of the project will entirely depend on the cooperation extended by the business and industry. We earnestly seek their association and co-operation in our research projects.

In this first survey entitled " **Recruitment of Managers** " we propose to study and review the practices in the field of recruitment of managers. The Managers are the keymen in the policy line and executive areas. They contribute the human energy needed for operation and success of business and industry. The importance of efficient managers for business and industry can never be overemphasised.

Please note that every participant will be furnished with a copy of the survey report after it is completed.

**Editor.**

### RECRUITMENT OF MANAGERS.

**Objective :**

The objective of this survey is to make a study of the mechanism of recruitment of managers, the procedures being followed, the factors that are being emphasised and the problemes encountered. For the purposes of this survey, the term 'manager' includes in its scope, the General Manager and the departmental heads such as Works Manager or Superintendent, Sales Manager, Purchase Manager etc. and the deputies. It does not extend to the executives at the level of supervisors and foremen.

The respondent enterprises may send the replies to the published questionnaire and extend their co-operation. We assure them that all the information furnished will be kept strictly confidential and the names of the enterprises and such details will not be published in our study reports.

* Formerly Deputy Technical Director (Research) of National Productivity Council and presently Inspecting Officer (Costing and Management) Textile Commissioner's Office Bombay.



## QUESTIONNAIRE

Name of the enterprise :
Address :
Manufacturers/Dealers in -
(Please state products and services)

| | | |
|---|---|---|
| Average Aunnual Sales turnover | Quantity Value | Total employment Average |

### I. MANAGERS & DEPARTMENTAL CHIEFS

| Department | No. of Managers | Functions handled (briefly) | Scales of remune-ration | Number of workers in the dept. | | |
|---|---|---|---|---|---|---|
| | | | | Skilled | Semiskilled | Un-skilled |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |

### II. CHOICE OF MANAGERS

(Please state the usual method being adopted by your enterprise

(a) By advertisement in Newspapers and Professional journals.
(b) Through Employment Bureaus & Advisers.
(c) Through Universities.
(d) Through personal contacts.
(e) Through any other means
(give details)

(In case more than one medium has been adopted, please indicate the frequency under each category.

### III. EXAMINATION OF APPLICANTS

(Please state the usual way in which the applications/applicants are being examined to spot the likely candidate)

(a) Scrutiny by experts (seeking external examiners, if needed)
(b) Interview of the candidate
(c) Confidential reports from refrees
(d) Practical tests
(e) Employment for probationary period
(f) Any other method
(please give details)

## IV. CRITERION FOR CHOICE

(Please state the factors that have weighed in the matter of choice of managers. Please indicate the order of priorities)

| CRITERIA FOR CHOICE | TYPE OF MANAGERS Purchase | Sales | (Classification) Production etc. |
|---|---|---|---|
| (a) Educational background | | | |
| (b) Technical qualifications | | | |
| (c) Practical training in the line | | | |
| (d) Experience in the line | | | |
| (e) Recommendations from institutions. | | | |
| (f) Promoted by virtue of service & proved abilities in the department | | | |
| (g) Relationship with Directors & management | | | |
| (h) Any other factors (give details). | | | |

## V. FREQUENCY OF CHANGES

During the last ten years, please give following details in respect of personnel that left the enterprise :—

(i) Functions handled by the persons who left the enterprise.

(ii) Period of service at the time of leaving

(iii) Causes for leaving the service :—

- (a) Better prospects.
- (b) Inability to carry on the functions.
- (c) Dissatisfaction with
  - (i) remuneration
  - (ii) management
- (d) Management not satisfied with performance terminated to his services
- (e) Any other reasons (please give details).

(iv) How was the successor recruited.

## VI. MANAGEMENT DEVELOPMENT

(Please state the steps being taken by your enterprise for promoting the development of managers.)

(1) Whether you have a management training department to develop the potential managers from your supervisors ?

(2) Whether training facilities being offered by

- (a) Management Associations
- (b) Productivity councils.
- (c) Training institutions & consultants.
- (d) University departments are being utilised.

(3) Whether the enterprise has sponsored and financed education and training of candidates in foreign institution (Please give details.)

A spare copy of the Questionnaire is enclosed. It is requested that complete confidential replies may please be sent to the following address to reach before the 15th December 1961 :—

THE EDITOR,
**Business Management,**
40, General Patters Road,
MADRAS - 2.

BUSINESSMAN'S LAWYER

# ENFORCEMENT OF THE STATUTORY OBLIGATIONS OF THE COMPANY BY THE PROSECUTION OF DIRECTORS

Many are the statutory obligations cast upon the company and its organs by the Companies Act. The obligations are sought to be enforced by the penalties provided for in the relevant provisions to be applied against the company itself and/or the officers.

In order to ensure that the threats of penalties are real, the coercive apparatus has been geared to enforce the provisions more vigorously than was attempted hitherto by the appointment of Company prosecutors. The Department of Company Law Administration is reported to have launched as many as 9624 prosecutions under the Companies Act during the last four years and the figure is an indicative of the increasing vigour with which the provisions are being enforced. The Department takes a serious view of the default of the Company to comply with the statutory provisions.

It is believed that laxity in complying with these provisions had been a potent force of evil in the past and if permitted as in the past, may generate tendencies and attitude which could not only dull the sense of shareholders responsibility but also permanently damage the basic concept of corporate accountabilities. Although even now the general practice seems to impose only a nominal fine, the High Courts have often impressed upon the Magistrate's Courts to take serious view of the offences under the Companies Act. In Dhanalakshmi Syndicate (Private) Ltd., and others vs. The Registrar of Companies, Madras, Justice Ramaswamy of the Madras High Court observed as follows:

"It is a matter of considerable importance that balance sheets should be prepared and submitted in proper time. The neglect to do this is the cause of many avoidable scandals. Therefore the Magistrate should have taken an adequate and grave view of the offence which is destructive of commercial morality".

In this article, we shall confine ourselves to the liabilities of one who is merely a director, i.e. a director who does not hold any other office in the company such as managing director, or manager or secretary. What are the liabilities of an ordinary director?



The management of the company is vested in the Board of directors collectively. The directors therefore as a rule can act only at Board meetings. At the Board meetings, the directors exercise their power by resolutions passed at the meetings or by circulation or by formal decisions of approval or disapproval. Thus the powers of Board in general can be exercised by 'deliberations' and not by 'executive actions'. A glance at the definition clauses of Managerial Personnel makes it clear that whether the company chooses to be managed by the Managing Agents or Managing Director or Manager or Secretaries and Treasurers, they are subject to the superintendence, control and direction of the Board of directors. But in so far as the powers of superintendence, control and direction is vested on the Board as such, the said power can be exercised only by the Board. The directors share the collective responsibility, but no director can singly exercise the power vested on the Board except when the power is "delegateable" and the power has been so delegated to an individual director. For example, no single director unless expressly authorised by the Board has the power of "superintendence, control and direction" over the managing agent, or managing director or manager, because under the Act the power vests on the Board and to be exercised collectively.

Following are the statutory obligations cast on the Board as such by the Companies Act:

(1) To allot share capital offered to the public for subscription after the amount stated in the prospectus as the minimum amount to be raised in the opinion of the Board has been subscribed (Sec. 69 (1).

(2) While issuing further share capital, the Board of Directors is empowered to dispose of shares declined by members (Sec. 81 (1) (d).

(3) The Board of directors shall at least twenty one days before the date on which the statutory meeting is to be held, forward a statutory report to every member of the company (Sec. 165 (2).

(4) The Board shall cause a copy of the statutory report certified as is required to be delivered to the Registrar (Sec. 165 (5).

(5) The Board shall cause a list showing the names, addresses and occupation of the members of the company and the number of shares held by them. (Sec. 165 (6).

(6) The Board of directors shall on the requirement of such number of members as prescribed proceed duly to call an extraordinary general meeting of the company. (Sec. 169).

(7) All or any books of account may be kept at such places in India other than the registered office as the Board of directors may decide (Sec. 209 (1).

(8) At every annual general meeting of a company the Board of directors of the company shall lay before the company a balance sheet and a profit and loss account (Sec. 210 (1)

(9) If for any reason, the Board of directors of the holding company is unable to obtain information on any of the matters required, a report in writing to that effect shall be attached to the balance sheet of the holding company. (Sec. 212 (6).

(10) The balance sheet and the profit and loss account shall be approved by the Board of directors before they are signed on behalf of the Board and before they are submitted to the auditors for their report thereon (Sec. 215 (3)

(11) There shall be attached to every balance sheet laid before a company in general meeting a report by its Board of directors including the prescribed information (Sec. 217).

(12) The Board shall also give the fullest information and explanation in its report aforesaid or in cases in an addenda to that report on every reservation, qualification or adverse remark contained in the auditors' report (Sec. 217).

(13) The first auditors of the company shall be appointed by the Board of directors within one

month of the registration of the company (Sec. 224).

(14) The Board of directors may if so authorised by the articles appoint additional directors (Sec. 260).

(15) The casual vacancy in the office of director may be filled by the Board of directors at a meeting of the Board (Sec. 262).

(16) The power to make calls, to issue debentures and borrow moneys and invest the funds, to make loans and the delegation of the aforesaid powers (Sec. 292).

(17) Where a vacancy has occurred in the office of managing agent or secretaries and treasurers the Board of directors shall have power to carry on or arrange for the carrying on of the affairs of the company (Sec. 298).

(18) The Board of directors of a company may if so authorised by its article appoint an alternate director to act for a director during his absence for a period of not less than 3 months from the State in which meeting of the Board is ordinarily held.

(19) The power to appoint a person as its managing director or manager if he is either the manager or managing director of another company (Sec. 316 and 386).

(20) The managing agent shall not be paid any office allowance, but he may be reimbursed in respect of any expenses incurred by him on behalf of the company and sanctioned by the Board.

(21) No investment shall be made by the Board of directors of an investing company unless it is sanctioned by a resolution passed unanimously at a meeting of the Board the notice of which has been given to every director.

(22) Secretaries and Treasurers shall have no right unless and except to the extent to which they are authorised by the Board of directors to sell the company's goods or to purchase goods for the company.

The aforesaid powers are specifically entrusted to the Board by the Companies Act. As enunciated by Lord Cairns in the case of Julius vs. the Bishop of Oxford " there may be something in the nature of the things empowered to be done something in the object for which it is to be done, which may couple the power with a duty and make it the duty of the person in whom the power is reposed to exercise that power".

The power reposed on a collective body can be exercised by deliberations and decisions of the majority unless it is expressly provided that any particular power can be exercised by the unanimous decision of the Board. Similarly a resolution may be passed by circulation except when it is expressly provided that it may be passed by a resolution at a meeting.

**Powers of individual directors.**

In addition to the aforesaid powers reposed on the Board to be exercised by the Board 'collectively' the following powers can be exercised by the directors in their individual capacity by virtue of the office of directorship :

1. The books of account shall be open to inspection by any director during business hours. (Sec: 209 (4).

2. Any two directors of the company may call a general meeting of the company for the purpose of consideration of any resolution for the removal of managing agent for fraud or breach of trust or for gross negligence (Sec. 339).

**Enforcing provisions** :

In order to enforce the statutory requirements, the Companies Act has provided for penal provisions that would be attracted on the failure of the company to comply with the statutory obligations. The penal provisions could be invoked against the " company and every officer of the company who is in default".

The term 'officer in default' has been defined in Sec. 5, under which the expression 'officer who is in default' means any officer of the company who is knowingly guilty of the default, non-compliance, failure, refusal or contravention mentioned in that provision or who knowingly and wilfully authorises or permits such default, non compliance, failure, refusal or contravention.

That the directors do not *ipso facto* become liable for the defaults of the company is quite clear from the purposeful distinction drawn in the section between the liability of a company and the liability of its officers. The distinction is rendered lucid further by the section itself where it is provided :— " If a company makes default, it shall be liable and every officer of the company who knowingly and wilfully authorises or permits the default shall be liable ......" Thus when the company's liability is absolute while that any of its officers is made dependant on whether or not they knowingly committed or authorised or permitted the default.

As stated earlier, in so far as individual directors cannot singly exercise any power vested with the board as a rule, no individual director can be made liable for failure to comply with the statutory obligations. The duties of ordinary directors were elaborately discussed in Re. City Equitable Fire Insurance Co., by Romer J. Prof. Gower has dealt with the Judgment and one of the propositions drawn from the classical Judgment is as follows:

" A director is not bound to give continuous attention to the affairs of his Company. His duties are of an intermittent nature to be performed at periodical Board meetings. He is not however bound to attend all such meetings, though he ought to attend whenever in the circumstances he is reasonably able to do so.

The above applies solely to holders of ordinary Directorships from whom nothing more is expected than attendance at meetings. The director who stays away runs the risk of not being appointed when he next comes up for re-election, but little risk of liability of what is done in his absence".

Romer J.. in the above case considered the scope of the expression "wilful neglect or default" and has interpreted the same to mean "an act or an omission to do an act is wilful, where the person who acts or omits to act knows what he is doing and intends to do what he is doing, but when that act or omission amounts to a breach of his duty and therefore to negligence, he is not guilty of wilful neglect or default unless he knows what he is committing and intends to commit a breach of his duty or is recklessly careless in the sense of not caring whether his act or omission is or is not a breach of his duty."

The same aspect has been discussed elaborately in a Bench Decision (Registrar of Companies, Kerala vs. K. R. Gopala Pillai and others, K. L. T. 1961 Page 383). In trying to define *mens rea* and its application, it was observed " directorship in a company is not an ornament for adorning or a mere course of profit and patronage, but is an office which carries with it duties and responsibilities. What they are and how they are to be discharged may vary depending also on the nature of the business of the Company and on the articles of association governing it".

Therefore wherever a penalty has been provided for against an officer in default in respect of any failure to comply with a statutory obligation, an ordinary director cannot be prosecuted against, as long as the Board has made adequate arrangement for the management of the Company by the appointment of managerial personnel or otherwise. It will therefore be a valid and conclusive defence for an ordinary director to plead that in so far as he could not have in his individual capacity complied with the statutory obligations and as long as the Board has made necessary arrangements for the management of the Company, he cannot be held to be an Officer in default, within the meaning of the Companies Act. In other words the expression Officer-in-default in the various sections does not invariably include ordinary Directors also. For instance Section 147 requires every Company shall paint the name and address of its registered office and display them on the outside of every Office. If a Company does not so display the name and address, the Company and every Officer of the Company in default shall be punishable with fine. In such a context the expression Officer-in-default cannot mean or include an ordinary Director, as he had neither the power nor the duty to comply with the provision. Only the Managerial Personnel or the Secretary entrusted with executive authority could have been expected to comply with the provision and therefore an ordinary Director cannot be made liable under the said provision. Thus, the Officer in default will refer to different people according to the Managerial structure of the organization and will vary with respect to each statutory obligation.

That an ordinary director is not liable for failure to keep proper books of accounts if the Board had made arrangement for the management of the company has been explicitly provided for in Sec. 209 (6). This is a clear recognition of the general principle of the non-liability of ordinary Directors where the management has been entrusted to others unless provided otherwise.

**Liability of individual Director:**

Notwithstanding the general proposition that an ordinary Director cannot be invariably made liable for the failure of the Company to comply with the statutory obligations as the Officer-in-default, the Companies Act, in certain exceptional provisions has made the ordinary director specifically liable. In that case, adequate arrangements made by the Board for the management cannot be a valid defence. Following are some of the provisions which make the ordinary directors liable:

1. Failure to refund all moneys received from applicants for shares as required under Sec. 69 (5) will render the directors jointly and severally liable to return moneys with or without interest (Sec. 69 (5).

2. Failure to apply for permission for shares to be dealt in a recognised stock exchange would make the Directors liable to repay the money forthwith. The aforesaid provisions only attract the civil liability of the Directors and only the following attracts the penal provisions.

Following are some of the provisions that make every director penally liable:—

(1) If a company allots shares without complying with Sec. 70, the company and every director of the company who wilfully authorises or permits the contravention shall be punishable with fine which may extend to Rs. 1000/-.

(2) Failure to take reasonable steps to lay annual accounts and balance sheet and profit and loss account before the Company in general meeting, makes every director liable for the penalties provided thereunder.

However it has been specifically provided that in any proceedings against a person in respect of an offence under Section 210 it shall be a defence to prove that a competent and reliable person was charged with the duty of seeing that the provisions of this section were complied with and was in a position to discharge that duty (Sec. (210 5) Proviso).

It is therefore submitted that the scheme of the Act makes a clear distinction in respect of the different obligations when every Director is prima facie liable unless otherwise proved when the "Officers" concerned alone is liable. The Company Law Administration will not be justified to launch prosecutions against an ordinary director unless it has been so specifically provided. Thus the Companies Act does not appear to be so harsh as to make even the innocent directors liable for failure to comply with the various statutory obligations.

The Company Law Administration and the Registrar of Companies will therefore do well to pierce the veil of the Management before initiating prosecutions, the affairs of the Company concerned to ascertain the 'Officer-in-default' in the context of each Company, for taking steps against the persons actually responsible instead of attempting a blind short at all the Directors and the company,



as they tend to do now. To do so is repugnant to the very Scheme of the Act. The Act has made fine distinction between the powers that can be exercised collectively and the powers that can be exercised individually. The penal provisions have specified exactly the Officer liable for each default. Only under certain provisions every Director is made liable whether or not he is an Officer-in-default and even then the statutory definers are made available to the accused Director. Inspite of such distinctions to prosecute even ordinary directors for default under any section will be an woeful failure to exercise the discrimination expected of the Authorities under the Act.

# LEGAL SPOTLIGHT

**Can bonus be claimed when the Company sustained loss?**

NAME AND FACTS OF THE CASE:

Brihattar Gwalior Press Karmachari Sangh, Gwalior.

vs.

Management of the Modern Printing Press, Sashkar. 1961—(2) F. L. R.

Bonus was claimed by the sangh from the management for the year 1953-54.

MANAGEMENTS' CONTENTION:

From the Profit and Loss Account dated 26—10—1954, it was shown that the press made a net loss of Rs. 14,440/-.

TRIBUNALS' DECISION:

Where from the Profit and Loss Account for the year in question it appears that the Company sustained a net loss of huge amount, no bonus can be claimed, the principle being well-established that no bonus can be claimed unless the company makes profit.

**Will the Insurance Company be held liable if the car under accident is sold by the insured to a third party prior to the date of accident?**

NAME OF THE CASE AND FACTS

Madras Motor Insurance Co. Limited

vs.

Mohamed Mustafa Badsha and others (1960)—30 comp. cas. (Ins.)

The 2nd defendant caused the death of the plaintiffs' son by rash and negligent driving of the car which was covered by insurance. The 1st defendant who *is the insured* sold the car during the validity of the policy to the 2nd defendant prior to the date of accident. The question arouse whether the Insurance company is liable to pay damages.

APPELLANTS' CONTENTION

As the car was sold by the owner to the 2nd defendant prior to the date of accident, the insurable interest in the policy disappeared and the policy had lapsed by the date of accident and consequently the insurance company was liable to pay damages.

RESPONDENTS' CONTENTION

There is no condition in the policy to the effect that by virtue of sale, the policy would lapse.

COURT'S DECISION
(Madras High Court)

There was no condition in the policy to the effect that a sale of the car during the validity of the policy rendered it void or amounted to a lapse. The insurance company was therefore liable to pay damages under the policy.

| | NAME AND FACTS OF THE CASE: | PETITIONERS' CONTENTION: | RESPONDENTS CONTENTION: | COURT'S DECISION: |
|---|---|---|---|---|
| **What are the powers of the state government in fixing or revising minimum rates of wages under Minimum Wages Act, 1948?** | Gairkhatta Tea Co. Ltd. vs. State of West Bengal. 1961 (2) F.L.R. By a notification in 1951, the Government of West Bengal fixed the minimum rates of wages payable to the employees employed in tea plantations belonging to the petitioners. By subsequent notifications in 1952, 1953 and 1954, the minimum rates of wages so fixed were revised from time to time. In 1955, the employers entered into an agreement with the workers by which, they agreed to pay to the workers, wages in excess of those notified by government as minimum wages. This agreement was subsisting in 1959. Whilst so, the government published a notification in August 1959 revising the minimum rates of wages once more. It is this notification that is challenged in this petition. | 1. The minimum rates of wages have not been laid down at all in the notification but it has been laid down that what the employer should pay to his workers, which is not the object of the Act. (2). The second objection is that the government has nothing to do with the rates of which an employer may be paying to the employee, by agreement of parties and it is concerned only with the minimum wage fixed by it on the last occasion. 3. Minimum wages can be fixed for a grade or class not as regards all classes of employment. | The respondent sought to justify the notification and contended that it is in accordance with the powers granted to the government under Minimum Wages Act, 1948. | The object of fixing the minimum wage and to revise the same is undoubtedly the fixation of a quantum, which is fixed after taking into consideration all kinds of factors. While fixing so, there is no reason why the government cannot refer to the existing wage, even if it is based on an agreement between the parties. It might be said that the revision is not really of the rates fixed by agreement, but is a mode of quantifying the rate of minimum wage, which government is entitled to fix. |

| | NAME OF THE CASE AND FACTS: | PETITIONER'S CONTENTION: | RESPONDENTS' CONTENTION: | BENCH DECISION: |
|---|---|---|---|---|
| **Can Municipal tax be levied by the Corporation on a company in Madras on its gross income, having its head office at Bombay?** | Columbia Films of India Ltd. and others. vs. Commissioner, Corporation of Madras. (1961)—31 comp. cas. The petitioners are three foreign but Indian registered film distributing companies carrying on business in India having their head offices in Bombay and branches in Madras. All film distribution contracts by theatres in Madras are entered into in Bombay and the branch offices collect moneys from the theatres and remit them to Bombay. The point in controversy is as regards the assessment to company tax of these "branch offices" under the Madras City Municipal Act. | If the head office had been in Madras, they would have been liable to tax on the basis of their paid-up capital in accordance with rule 7 of Part II of Schedule IV to the Madras City Municipal Act, 1919. The prviso to rule 7 provides an alternative scale of tax on the basis of the gross income of a company whose Head Office is not in Madras. The petitioners contented that the proviso is only concessional and not compulsory. | It was for the Corporation to decide whether a company should be assessed on its paid-up-capital was inapplicable to cases where the Head Office of the company was situated outside the city so that the proviso would be attracted. | (Madras High Court): Assessment on the paid up capital of a company applies to companies without reference to the location of the Head Office. The alternative scale of tax on the basis of the gross income of a company whose head office is not in the city of Madras, is designed as a concession to the assessee and to afford relief against the hardship which an assessment on the paid up capital might cause in individual cases. |

**Will absence without leave cause a break in continuity of service disentitling to gratuity ?**

FACTS OF THE CASE :

Jeewanlal (1929) Ltd.,

vs.

Its Workmen, 1961—(2) F. L. R.

In a dispute between the appellant and the respondent, the Tribunal passed an award providing for a gratuity scheme. The appellants' employee, Bhanu Bala submitted his resignation in 1957 after 28 years of service in the appellant, company. According to the appellant, the employee was not entitled to gratuity as there was a break in 1945 for 8½ months without leave or permission. But, it offered him Rs. 1165/- on compassionate ground. The employee took up the matter to the Labour Court where it was decided in favour of the employee and the Labour Court directed the appellant to pay Rs. 1781-80 nP. The appellant moved the High Court for a writ and the writ was issued quashing the order of the Labour Court. The Tribunal held that the words "continuous service" mean service not broken or interrupted by the resignation of the contract of employment by either the employer or the employee or by operation of law. The correctness of this interpretation is challenged in this appeal.

'APPELLANTS' CONTENTION :

The appellant contended that the said employee has not been employed in continuous service for the requisite period because there was break in his service for 8½ months in 1945 and that affected the continuity of his employment which made his claim incorepentte.

RESPONDENTS' CONTENTION :

The scheme of gratuity postulates the continuance of the relationship of master and servant between the employer and his employees. It is difficult to hold that melely because an employee is absent without leave, that itself would bring to an end the relationship of master and servant.

COURTS' DECISION :

On the interpretation of continuous service in the provision for gratuity scheme 'on voluntary retirement or resignation after 15 years continuous service", the expression postulates the continuance of the relationship of master and servant. It is difficult to hold that merely because an employee is absent without obtaining leave, that itself would bring to an end the continuity of his service.

**Is a contract in which an interested director participates, voidable at the instance of the company or void ?**

NAME OF THE CASE AND FACTS :

Bank of Poona Ltd.,

vs.

Narayandas A. I. R. 1961, Bombay 252

At a meeting of the Board of Directors, a resolution was passed alloting certain shares to a director whose presence was counted for the purpose of forming a quorum. The defaulting director contended that the allotment is bad and not effective.

DEFENDANT'S CONTENTION :

Under Sec. 91-B of the Companies Act 1913, an interested director's presence is not be counted for the purpose of forming a quorum at the time of the meeting and since there was no quorum at the meeting, any business transacted at this meeting could not be said to be validly transacted and therefore the allotment was void *ab initio.*

COMPANY'S CONTENTION :

Although a penalty is provided, that by itself cannot make the contract void. It would be voidable at the intance of the company and not the director. The resolution alloting shares is not void and therefore would be binding on such director.

BENCH DECISION :

Though the presence of an interested director is not to be counted for the purpose of forming a quorum at the time of voting at the meeting is not void *ab initio* the fact that a penalty is provided by itself cannot make the contract void. It will be voidable at the instance of the company and not the directors. Even on general principle the defaulting director cannot be allowed to plead his own default for avoiding the allotment because he subsequently finds it onerous.

EXECUTIVES BOOK SHELF

**THE EASTERN PURCHASING JOU**

(Inauguration number of the National Association of Purchasi

Editor : A. R. PALIT
Office : 76, Sunder Nagar, New Delh

Young though the Journal is in as much as the one the second number in its second volume the readers particular it is addressed will find valuable information both from advertisements it carries. Having received the official recogn Association of Purchasing Executives as their organ, the mission of equipping the prospective purchasers the method of of relevant information, coordinating, financing and purcha of purchasing for profit. As one of the important manageme purchasing as a technique of keeping down the cost, maintaining a high turnover and a good margin of profit cannot be ignored by any organisation. However the Journal is not a substitute for an efficient purchasing organisation but intends to add to its value. The success of an enterprise of publishing a journal of this type entirely depends upon the extent of cooperation it invokes for those to whom it is especially addressed and from the measure of co-operation it has gained so far, the journal appears to be very promising.

178296