Lack of Understanding on Memorandum of Understanding

Prajapati Trivedi

No one can say that the Memorandum of Understanding (MOU) is a panacea for public sector ills, nor can anyone claim it is perfect in its design as well as in its implementation. But it is an improvement over all known previous efforts and represents a step in the right direction. Much work needs to be done to improve it further, notwithstanding the fact that it has achieved a great deal in a short period of time and is regarded to be in the vanguard of such efforts internationally.

INTRODUCTION

The recent article by Murthy [1990] on the policy of Memorandum of Understanding is a typical 'good news-bad news' story. The good news is that it signals an increase in the level of interest and awareness regarding the existence of the MOU policy. The bad news is that it is, unfortunately, factually quite inaccurate and betrays a surprising lack of clarity regarding the current status of the MOU policy. As we shall see later in this critique, the subtitle of the paper: 'More Memorandum than Understanding' is more true for the article by Murthy than for the MOU policy, if correctly understood.

Before embarking on a systematic review of this article, it may be worth making a few general observations to set the stage right. First, it is clear to anyone who has been following the recent developments in the MOU policy that the article under review has ignored much of the recent changes in the MOU policy, to be sure, it does make passing reference to the recent changes. However, all the criticism is primarily against the old MOU policy as it operated till the signing of 1988-89 MOUs. This tends to create an impression that two separate articles have been mechanically slapped together and passed off as an integrated piece.

One gets the feeling that any initiative of the government other than the formation of holding companies would have been criticized by the author in order to pursue his own agenda. It is perfectly reasonable to suggest an alternative policy. However, 'fairness' mandates that the alternative policy be presented in an honest way. By not pointing out the enormous problems with the theory and implementation of the 'holding company' concept in India and abroad, Murthy reveals his subjective bias. He could have spoken with a few holding company chiefs and told us why formation of holding companies will solve our problems better than MOUs.

Finally, the article is full of internal contradictions. For example, on page M-64 (second para of column 2), Murthy states that the experience of several decades shows that as long as major decisions 'remain bound by procedures, unrelated to achieving enterprise goals, morale and performance, the enterprises drift into lifeless routines as appendages of the bureaucracy'. However, having stated this how could Murthy disregard (as well as discard) the current MOU policy which espouses the philosophy of moving the supervision of public enterprises from one based on 'control by procedure' to that based on 'control by results'. MOUs for the first time in the forty year's history of our public sector have made a serious attempt in this direction [Iyer, 1990]. Murthy could have questioned the 'magnitude' of the progress but by questioning the 'direction' of the progress he contradicts himself and goes against the tide of the history.

If this article had been written by anyone other than a professor from a well-endowed institute it would be understandable. Therefore, this article by Murthy is a bit disheartening and disappointing, to say the least. The author apparently has ready access to the Bureau of Public Enterprises (BPE) and all he had to do was to discuss his ideas with the people at BPE to save himself this embarrassment. Since Murthy seems to have interviewed some people for this article, one more interview at BPE would not have strained his resources too much. Even good journalists try to get both sides of the story and, thus, to expect this from academicians does not appear to be an unreasonable proposition.

The body of the Murthy's article can be divided into three main parts; one part deals with the 'Origin of the MOU Concept and Its Application in India'. The next part of the paper deals with the 'Critique' of the MOU policy and finally a few paragraphs are devoted to 'Suggestions for Improvement'. We will also divide our critique into the corresponding sections. It is impossible to deal with all issues raised by Murthy in his article, as there are too many of them. We shall, therefore, focus on a varied sample of the important points in each of the three sections to illustrate the problem with Murthy's article.

ORIGINS AND IMPLEMENTATION OF MOUS

The signs of trouble begin to show up as early as the second paragraph of Murthy's article (on page M-59). The article says 'MOU, quite simply, is an agreement between two (or more) parties'. This is simply wrong. MOU is an agreement between 'two' parties only. As far as I know, and I have checked with everyone at BPE, nowhere do we find a statement saying that MOUs may have 'more' than two parties. None of the MOUs signed to-date in India have had more than two parties.

Later on in the same paragraph, Murthy states: 'If the two parties also agree on a performance evaluation system, they need only meet at intervals specified in the MOU to review the fulfillment of the obligations by each ...' This statement raises two issues. First, it implies that the two parties have a choice whether or not to have a 'perform ance evaluation system' in the MOU. This is, again, not true. An effective performance evaluation system is the very heart of the MOUs and there is no question of an option here.

The above statement also shows that the author is confusing 'monitoring' with 'evaluation'. Since the targets included in the MOUs are annual ones, the evaluation itself, by definition, will have to be annual. However, monitoring can be more frequent. Though, 'Guidelines for MOUs', issued by the High Power Committee (HPC), have recommended as infrequent a monitoring exercise by the concerned administrative ministries as possible.

It is worth noting that detailed monitoring is, perhaps, a more appropriate task for the board of directors. The government, through the MOUs, intends to focus on the end results and, hence, ought to be more concerned with evaluation. Whatever monitoring the government undertakes is bound to be qualitatively different from the monitoring done by the board of directors.

The section on origins of MOUs starts by citing BPE (1988a) document as suggesting that '.. government decided upon a policy to enter into MOUs with all its enterprises'. The truth is that this document only suggests that the 'government... proposes to extend it to increasing numbers of PSEs in the country'. If Murthy had bothered to check with BPE, he would have discovered that the government is emphasising consolidation of the recent gains made in the MOU policy rather than unbridled expansion. This year, 33 of the largest public enterprises representing approximately 80 per cent of the total public sector turnover are expected to sign MOUs. This is a good enough achievement. No one I spoke with in the government...
wants to bring in 225 or so central government public enterprises under the MOU system in the near future. If anything, the government is thinking of how best to rationalise its portfolio of existing public enterprises (PEs). This, as we have come to know, is an euphemistic way of saying that it may, in fact, want to get rid of some PEs. Only if the Government feels the gains made by the MOU policy have been substantial and could not have been achieved otherwise, it may expand the coverage of the MOU policy.

In this section an erroneous impression is sought to be created in the minds of the reader that Arjun Sengupta committee was in favour of MOUs only for the holding companies. A careful reading of the Arjun Sengupta report shows that this committee was indeed silent on the use of MOUs by companies other than the holding companies. Silence does not mean that it was against it. As a matter of fact, if the committee's recommendation on MOU (Paras 3.23, and 10.12) is read with para (4.39), it is reasonable to deduce that this committee would have found the present MOU policy in line with its thinking. Para 4.39 reads as follows:

The committee recommend that the performance of the chief executive of the enterprise as evaluated according to agreed parameters should form his performance record for the year.

It is also not clear what is so sacrosanct about the Arjun Sengupta committee. If you read the committee's report, it becomes clear that they had not given much thought to the details of the MOU system. They had recommended only the general directions. The current MOU policy has evolved out of several years of experience with MOUs in India. Therefore, deviations from Arjun Sengupta committee's report are only to be expected. The real question is whether deviations from the report are in the right direction. To this question Murthy has little to offer.

Another gross inaccuracy is tucked away in the second paragraph on page M-61, where Murthy asserts that 'to assist high power committee... several ad hoc committees are set up, chaired by the additional secretary (BPE): First of all, there is only one Ad Hoc Task Force and not several ad hoc committees. Further, this task force consists of all 'non-government' management experts and professionals. Hence, a government servant like the additional secretary, BPE, is ruled out by definition.2

The table on page M-60 proves to be the last straw which broke the proverbial camel's back. In this case, the credibility of the entire article comes under a big cloud as we realise that of the twelve observations made on the implementation of MOUs in this table, eight are simply not true. As an example let us examine a couple of them. Murthy asserts that the monitoring by ministries will be on the same methodology as the HPC and on a more frequent basis (quarterly or
As mentioned earlier, there is a difference between ‘evaluation’ and ‘monitoring’. While HPC is supposed to focus on year-end evaluation, the concerned ministries will be focusing on regular monitoring. It is recommended under the MOU policy that this monitoring should be as infrequent as possible. Ideally, a six-monthly review ought to be enough. But, if the ministry and the PE agree on a more frequent monitoring exercise, that would also be acceptable. The parameters for monitoring can be the same or different than those for the final, end-of-the-year evaluation.

In this table, Murthy also claims that the Sengupta committee recommended ‘differences in evaluation by the type of PE’ whereas, MOUs have implemented a uniform evaluation system. It is not clear what Murthy means by ‘uniformity’. One has to look at the 18 MOUs signed in 1980 to realise that they are all very different as far as their contents are concerned. For example, the indicators for evaluating the performance of Indian Airlines are very different from those for evaluating Heavy Engineering Corporation’s performance.

The only uniformity one can detect in the MOU system relates to uniform application of the general principles of performance evaluation. For example, each MOU is supposed to include criteria that are ‘fair’ to the managers and ‘fair’ to the country. One would like Murthy to let us know what is wrong with this kind of uniformity?

Murthy also claims that while the Sengupta committee recommended ‘reduce the breadth and the frequency of interaction between ministry and PE’, the MOU system lets ‘Existing interaction between PE and ministries to continue’. Nothing could be farther from the truth. According to the widely distributed ‘Guidelines on MOUs’:

As a part of the MOU exercise, the entire relationship between public enterprise and the concerned administrative ministry should be examined, MOUs must supersede and supplant not supplement existing mechanism and systems of authorisation, reporting and monitoring.

This requires a massive cultural change and it would be simplistic to assume that it will happen overnight. For this change to come about a number of interrelated factors will have to come into play. For example, a comprehensive study will have to be undertaken to determine the degree of overlap between various information and control requirements. Further, people in the government will have to be convinced that MOUs, indeed, enable them to control PEs by ‘results’ and, hence, make control by ‘procedure’ redundant. It is perfectly reasonable to expect that during the transition one may, initially, observe MOUs supplementing rather than supplanting old procedures.

This brings us to yet another general problem with Murthy’s article. Pie never makes a clear distinction between the ‘theory’ and ‘practice’ of MOUs. Most of his arguments seem to be based on what he perceives to be problems with implementing MOU but he manages to convey an impression that the MOU system itself may be theoretically flawed.

‘Even this tactic, intentional or otherwise, would be acceptable but for its obvious superficiality in dealing with the problem of change. One would like to know from Murthy if he is aware of any public policy of this magnitude that did not suffer from birth pangs. Even in the private sector, reforms in the management control systems of corporations like Exxon, General Motors and General Electric have taken four to five years to stabilise. Will Murthy also care to tell us how is the current MOU policy doing in comparison to similar efforts in the private sector.

Finally on this point, we ought to be concentrating on the changes. Sure, there are some problem with the current MOU policy, but they are a hell of a lot less than the problems with the MOUs three years back. That is how progress is measured.

CRITIQUE

The second part of Murthy’s paper is devoted to a critique of the existing MOU policy. I think it is reasonable to expect that a critique of a ‘misunderstood’ policy can only be irrelevant at best, and misleading at worst. Unfortunately, on reading the critique, our worst fears are vindicated.

The critique starts by raising certain questions relating to the MOU policy and, then, without attempting to answer them, pronounces ‘that these questions defy clear-cut answers’. There are several problems with this approach adopted by Murthy. First, an attempt should have been made to explain how these issues are being addressed under the current MOU policy? And, whether that is satisfactory? If not, what could be done to improve matters. It is only through such constructive debate that public policies are improved. This, no doubt, requires serious effort.

Murthy, on the other hand, opts for soft option of raising questions without attempting an answer. In doing so he is not alone. In our country we have a well established tradition of academicians who have a ‘problem’ for every ‘solution’. Therefore, one would not have paid much attention to this failing. Unfortunately, unanswered questions in an article have the potential danger of conveying the impression that, indeed, there are no answers to these questions. Fortunately, the reality is very different from this fallacious impression. For every issue raised by Murthy, an attempt has been made to get a state-of-the-art answer. To be sure, some answers, though the best available, are unsatisfactory and efforts have to be made to fine-tune the MOU policy in those areas.

As an example of the above class of problem, let us examine some of the issues mentioned by Murthy. He wonders: ‘if one of the signatories to the MOU is unable to fulfil its obligations, how binding are the obligations of the other as the two are closely inter-related?’. The answer to this question goes along the following lines.

To begin with, it is important to note that the current MOU policy makes a distinction between the ‘assistance from the government’ and ‘obligations of the government’. The latter category includes items which are entirely within the control of the concerned administrative ministry. Former, includes items over which the administrative ministry may not have full control and, hence, the ministry is not expected to make a firm commitment with regard to these items. A proposal for an ‘Empowered’ committee has already been mooted in the government to overcome this problem. This committee will act as a single window clearance system for the MOUs.

Be that as it may, the next issue relates to how do you deal with the effects of one side not fulfilling its obligations of the other party. The usual scenario implied in this discussion is the one in which the government fails to meet its commitments. The current MOU approach suggests that, wherever possible, the two parties should agree on the tradeoffs involved. Suppose that the Minerals and Metals Trading Corporation (MMTC) wants 6 million dollars to set up an office in Brussels. Let us further assume that the commerce ministry says that the check would try to get this money from the finance ministry but they couldn’t guarantee it would come through. What is the way out in this situation? The current MOUs are expected to give two alternative sets of targets, one with and the other without the commitment coming through. Therefore, MMTC could say that with an office in Brussels their turnover would be Rs 4,400 crore; and without it, the turnover would be Rs 4,000 crore. At the end of the year, MMTC’s performance should be judged on the basis of whatever actually happened.

Finally, it is possible that the failure of the government to meet its commitments may not affect enterprise performance at all during the given year in question. For example, if a clearance for a project is not given as expected, it will not affect this year’s turnover targets but some future year’s. In that case, no adjustment may be required in judging PE performance for that year.

The point of this lengthy digression is that enough thought has not been given by Murthy to these basic issues. Simply raising them does not help anyone. What is required is an in-depth discussion of these issues to take the debate one step higher. Murthy’s paper under consideration does just the opposite, it takes the debate on the MOU policy several steps backwards.

On page M-61 (bottom of column I) of the article, Murthy raises a question which makes one wonder, if he has read all the articles he has cited in this article. If he had even glanced through these, he would have
not raised this question. He states that 'The question of uniform pattern for all enterprises is also valid. Too much uniformity can lead to a failure to respond adequately to the technical and economic compulsions of the enterprise. And, in an area full of judgmental pitfalls, should the evaluation be oriented towards getting results or towards neutrality between contracting parties'.

The key words in the issue raised by Murthy are 'results' and 'neutrality'. He appears to suggest a tradeoff between them. As if, the current MOU policy has chosen 'neutrality' at the cost of 'results'. Far from being 'substitutes' for each other, they are, indeed, 'complements'. The whole thrust of MOUs is to manage public enterprises from one based on 'control by procedures' to that based on 'control by results'. However, if the process of setting targets and evaluation is hierarchical or dictatorial, the evidence from literature suggests, the system will be overtly accepted but covertly resisted. It is a very widely accepted principle in the public enterprise performance evaluation literature that the issues relating to 'who' should do the evaluations are as important as those relating to 'what' should be evaluated. The MOU system does not go for 'neutrality' for the sake of neutrality but for ensuring 'fairness' and 'objectivity' in setting appropriate targets and evaluating them.

A few more examples of Murthy's imaginative arguments against an imagined MOU policy are required to drive home the thrust of our critique. One is tempted to comment on the absurdity of most paragraphs, however, we shall pick and choose a few to prevent our critique from becoming too unwieldy. On page M-61 (bottom of column 3), Murthy states, 'Unfortunately, MOUs focus attention on what is measurable than what is worthwhile! This cliche from text books on management control systems may sound catchy but is, I am afraid, irrelevant and inappropriate in this context. It is surprising that this should be written by a person who was invited by BPE to give ideas on how to measure things like 'quality of HRD', 'quality of marketing', 'quality of R and D' and 'quality of corporate planning'. HPC has, in fact, recommended that MOUs should have a 50-50 split of total weights between 'quantitative' (measurable) indicators and 'qualitative' indicators. Further, how can Murthy say this when the MOUs are for the first time focusing attention on things like 'quality of service' and 'customer satisfaction' for evaluating Indian Airlines' performance. As far as I know, in the last 40 years, performance evaluation systems in our country have only focused attention on quantitative aspects of enterprise performance represented by various physical and financial parameters. The current MOU policy represents a dramatic turn in performance evaluation efforts in our country. One has to try very hard not to notice this development.
On page M-63 (column 1), Murthy argues that, "MOUs distort the formulation of goals and misdirects attention from what should be attempted as a challenge, given the resources and opportunities, to what may be nothing better than safe commitments. For performance is measured against commitments made and not against what should have been attempted." Murthy seems to imply that the focus of MOUs is on mechanistic ex-post evaluation. The question he has raised is a manifestation of this misplaced assumption.

The focus of the current MOU policy is as much on 'quality of target-setting' as on 'quality of evaluation'. This is sought to be achieved by asking the MOU signing parties to MOUs to:

(a) include indicators covering all aspects of enterprise performance: 'static efficiency' as well as 'dynamic efficiency';
(b) include indicators for 'qualitative' as well as 'quantitative' aspects of their performance;
(c) include past five years' data to ensure that the commitments made are growth-oriented and challenging as well as to prevent 'soft' targeting; and
(d) make MOU targets consistent with their corporate plan. A good corporate plan is, therefore, a pre-requisite for a MOU. Hence, Murthy's assertion on page M-61 (middle of column 3) that "MOUs misdirect attention to annual output and to irrelevant negotiations", is totally out of line with the current policy.

The central effort of the MOU exercise is to achieve the long-term objectives enshrined in the corporate plan. To achieve these long-term objectives, MOUs try to ensure that each year the 'right' things are done so that the PE keeps moving towards its corporate plan objectives. Murthy surely cannot argue with that. Unless, of course, he believes that once a beautiful corporate plan has been prepared, government should wait for ten years or so before checking on its progress. MOUs are just a means of monitoring the effectiveness in the implementation of corporate plans of PEs. MOUs differ from the old system, they hope to replace, only to the extent that the new MOU system is attempting to eliminate (or, more appropriately, in the short-run, reduce) the subjectivity and ad hocism inherent in the old system.

Murthy's objection to this increased objectivity in managing the government-PE interface arises from a lack of appreciation of the current policy. He prefers that the government should concentrate only on "nationally-inspiring, goal-setting policy making, appointments and allocation of resources". Unfortunately, the history of public enterprises around the world is a living proof that inspiring slogans alone cannot ensure that public enterprise managers will indeed deliver the expected goods. In fact, this tendency to postpone the day of judgment has been responsible for most of the problems with PEs around the globe. During the period immediately following the setting up of most PEs, the poor performance of PEs was explained away by claiming that the PEs in question were not short-sighted and profit-oriented and that they were trying to achieve some high-sounding (or, 'inspiring' to use Murthy's words) long-term objectives. This provided an effective shield and a camouflage for all kinds of ills to prosper under its cozy protection. The recent interest in MOU-type approaches around the world is a rejection of that old approach to managing public sector. Policy-makers around the world are telling PEs that they can't wait for the long-run to judge the performance of these PEs. Indeed, the long-run of yester years is already here. Policy-makers want results and not another new set of slogans to replace the old ones. It is worth highlighting that no one is saying that emphasis on long-term objectives should be diluted. As mentioned earlier, the prerequisite for a MOU is a corporate plan which incorporates the long-term concerns of both the nation as well as the enterprise. However, the current MOU policy rejects the notion that paper plans become reality by simply exhorting managers to do so.

The best way to allay the fears which Murthy has about the possibility of neglecting the long-term concerns under the MOU policy would have been for him to speak to the members of the Ad Hoc Task Force (ATF) who are really the implicit target of Murthy's concerns. In the final analysis, the government of India has reposed its faith in the concept of the ATF to ensure that the 'best' possible MOUs are produced. This ATF, as mentioned earlier in this paper, consists of ex-chief executives of PEs, ex-secretaries to government of India, leading chartered accounting firms, management experts and professors from leading management institutes in the country. If they can't prevent such an obvious distortion, then we have no hope. No system, however brilliant, can be better than the people involved. And, it is fair to say that the ATF has some of the best people the country has.

Since I had the privilege of participating in some of the proceedings of the ATF, I can reassure Murthy that he has nothing to worry on this count. I can think of several meetings in which a large chunk of time was taken up by Lovraj Kumar and Ramaswamy R Iyer (both of whom need no introduction) on insisting that the MOU signing companies come up with a long-term plan to achieve 'international' excellence, not just 'national'. There is nothing new or sensational about asking this much from our PEs. What is surprising is the lack of action on this front in the last so many years. The new policy hopes to change all that by insuring action on this front. It does so by explicitly including in the MOUs 'Quality of R and D Plan' and 'Quality of R and D' as indicators, wherever relevant. R and D is, of course, just one example of this class of concerns and MOUs are trying to enforce excellence in other areas where performance is 'hard-to-measure'.

On page M-64 (second para, column 3), Murthy makes a statement which begins to unravel the clue to his confused thinking on MOUs. He states:

Another significant proportion of government investments is locked up in sick enterprises. MOUs, especially annual ones, contribute little to improving performance in such cases.

There are two big conceptual blunders embodied in the above statement. First, Murthy implies that multi-year MOUs may be superior to annual ones. This point has been debated at length at BPE and within various enterprises, such as IPCL and ONGC. The gist of the consensus that has emerged goes as follows.

Nobody can deny that an effective annual MOU must be drawn from a long-term corporate plan. This is as true for a one year MOU as it is for a multi-year MOU. The only real question is whether you want to include the corporate plan in the body of the MOU. If you do, then you have to decide whether you want to evaluate the implementation of the contract (MOU) at the end of the corporate plan or annually. Most people agree, as indicated elsewhere in this critique, that to wait that long to evaluate PE performance is fraught with many dangers and experience shows that these dangers are real ones and not hypothetical.

The only sensible choice even if you have multi year contracts is to have annual evaluation. A corporate plan is only a plan, it has to be adjusted as one gains experience. Thus not only one would have to have annual evaluations, one would have to revise the multi-year contract annually to adjust the old corporate plan in the original (MOU) document. By the time one begins to implement a multi-year rolling MOU, it will be, for all practical purposes, an annual MOU.

In short, it is not important how long the contract is, so long as the annual targets are derived from a 'long-term' perspective. Murthy, fails to register this distinction in his article and seems to be obsessed with the 'cosmetic' issue of the chronological length of MOU and not the substance of MOU.

In the paragraph mentioned above, Murthy makes another statement which goes against the very grain of the widely recognised basic principles of PE performance evaluation. He claims that: "What is required for performance improvement is evaluation based on information generated from outside the MOUs..." First, the distinction between 'outside' and 'inside' in the present context is not at all clear. In drafting the MOUs, all available information is brought to bear on the MOU. The draft MOU is vetted by all nodal economic ministries in the government such as the finance ministry, ministry of programme implementation and the Planning Commission. In addition, these MOUs are reviewed by the Bureau of Industrial Cost and Prices, Public Enterprises Selection Board and the Ad Hoc Task Force. One wonders who else would Murthy like to add to this already very exhaustive list. MOU system does not want...
to preclude any information that may be relevant for drafting effective MOUs.

To strengthen the information base further, BPE has installed a computerised information system which will lead to a quantum jump in the in-house analytical strength of BPE. BPE is also in the process of preparing analytical background studies on each of the MOU signing company. These case studies will do the necessary SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis. Finally, it is worth noting in this context another institutional innovation undertaken by the BPE. To do the background work on MOUs requires a very high level of expertise. When the then Cabinet Secretary asked BPE to undertake the monitoring of MOUs on his behalf in 1989, BPE found that such talent was not available in adequate quantities at BPE. However, instead of waiting for permanent recruitment, BPE borrowed the services of young professionals from the various MOU signing companies. BPE specified the qualifications required (generally, a chartered accountant or MBA with an engineering background) and chose from the list of candidates supplied by the enterprises. This arrangement is what economists call a 'Pareto Optimum' move. Everyone is better off but no one is worse off. Enterprises like this arrangement because it gives them access observe the working of the MOU system. With their men sitting at BPE, they feel reassured that no mad professor or ignorant civil servant is pulling numbers out of the thin air to merely harass PEs. The young professionals (with 10 years experience on the average), enjoy the opportunity to see the inner portals of the government. The only restriction on them is that cannot work on their own company's MOU.

The advantage for BPE and the MOU process are obvious. BPE gets help from the people on the front-line who bring the realities of the field to the Lok Udyog Bhavan. These professionals are really interested in each other's MOU as they come from the corporate planning division of other MOU signing PEs and have been working in this area. This is part of the genuine effort on the part of the HPC to get all possible 'outside' input for the MOU process. And, all this information is available for the asking to anyone genuinely interested in knowing the working of the MOU system.

The purpose of this lengthy diversion is to suggest to Murthy that his fears about 'outside' information not filtering through to the MOU process are totally unjustified. However, even more grievous error is committed by Murthy in not clearly differentiating between the 'enterprise performance' and 'managerial performance' in the statement by him which has been sighted above. While the enterprise may take several years to show a perceptible improvement in its performance, yet, the performance of the manager in terms of efficiently executing the

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1. Name and Address of the applicant: LARSEN & TOUBRO LIMITED
   Registered Office, L&T House, Ballard Estate, Narottam Mangal Marg, Bombay 400 038

2. Name and address of the undertaking the whole or part of which is proposed to be taken over and the manner of takeover by acquisition of shares, acquisition of control or management, whether by the acquisition of the ownership of the undertaking or under any mortgage, lease or licence or under any agreement or other arrangement.
   The proposed undertaking to be located in Maharashtra will be a new company to be set up by LARSEN & TOUBRO Limited for undertaking exports. Turnover will be by acquisition of 100% of the equity capital.

3. Management Structure of the applicant organisation indicating the names of the directors, including managing/wholetime directors and manager, if any.
   The Company is managed by the Managing Director and Wholetime Directors subject to the supervision and control of the Board of Directors.

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<td>Mr. A. G. Karkhanes</td>
<td>Director</td>
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<tr>
<td>Mr. K. A. Bhate</td>
<td>Director</td>
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4. Capital Structure of
   (a) the applicant:
      Authorised Capital $Rs. 8,00,00,000$ Issued Capital $Rs. 6,00,00,000$
      Subscribed Capital $Rs. 6,00,00,000$
   (b) the undertaking proposed to be taken over
      Authorised Capital $Rs. 1,00,00,000$
      Issued & Subscribed Capital $Rs. 50,00,000$

5. Lines of business of the undertaking which will or is likely to emerge as a result of the proposed acquisition:
   Marketing of various products and services for exports.

6. Consideration for the acquisition:
   Rs. 50 lakhs

7. Scheme of finance, indicating the sources of finance for the proposed take over:
   Through internal cash accruals of the Company.

Any person interested in the matter may make a representation in quadruplicate to the Secretary, Department of Company Affairs, Government of India, Shastri Bhavan, New Delhi, within 14 days from the date of publication of this notice, intimating his views on the proposal and indicating the nature of his interest thereto.

Dated this 14th day of November, 1990

S. D. KULKARNI
Vice President (Finance)
Finally, Murthy's implication that administrative ministries are, in general, incompetent to detect soft-targeting is too strong a statement to be acceptable. There are all kinds of ministries as there are all kinds of enterprises.

Murthy has questioned another very basic element of the MOU policy—the composite score. He finds it difficult to believe that Heavy Engineering Corporation's (HEC) performance can be compared to that of Maruti or Air India on the basis of the composite score. One has to remember what is at stake here. No one is comparing the profitability of these enterprises. For that matter, no one is comparing these enterprises on the basis of any particular set of indicators. The composite score simply compares the Ability of various enterprises to meet their 'commitments', whatever these commitments are. While commitments in the MOUs may not be directly comparable, the ability to meet these commitments is certainly comparable. For example, while a professor and a manager have different commitments, they can both be considered excellent, if they fulfill their commitments.

The experience of countries where this composite score has been tried suggests that it does create some amount of competitive pressure among public enterprises. A review of literature on comparative efficiency of public and private enterprises suggests that operational efficiency is related more to competition than to ownership. Since, in the foreseeable future, these mega, monopolistic, public enterprises are unlikely to be split up and privatised, any competitive pressure should be welcome. This is precisely what happened in South Korea and Pakistan after the introduction of a performance evaluation system based on a composite score.

This brings us to the country experience. Murthy by selectively quoting from Nellis (1988) and other sources, creates an impression that MOU type approaches have not fared too well in developing countries except for South Korea. There are two problems with this depiction. First, in the same piece Nellis concludes by saying "Overall, the contract plan (CP) device is of value." In fact, he recommends its cautious adoption in other countries. If Nellis thought it was a useless device he would not have recommended its adoption. Second, Nellis works for the World Bank and in an earlier exhaustive survey, reported in the World Development Report (1983), World Bank concluded that "Most contracts have produced measurable improvements in SOE performance". Murthy goes to great lengths to describe the public enterprise performance evaluation system in Korea but arrives at a very simplistic conclusion that the MOU-type system was a success in Korea but will not work for India. Of course, if one copies a system blindly, without making appropriate adjustments for the differences in the local conditions, no system can be given a great chance to succeed. Murthy cites no evidence to prove that MOUs are a thoughtless copy of the Korean system yet makes this gloomy prognostication for the MOU system. The fact of the matter is that the Indian government adapted the Korean system to suit the Indian conditions and did not simply adopt the system lock, stock and barrel. Unless one deliberately ignores the mass of evidence suggesting adaptation rather than adoption was involved, it is difficult to make the kind of assertion that Murthy has made.

Before finalising the details of the current MOU system, government undertook a very comprehensive review of the international experience, in general, and the Korean experience, in particular. During this review it was discovered that the similarities between the problems and structure of the Korean and the Indian public sectors far outweighed the dissimilarities. It was the opinion of a high level delegation that went to examine the Korean system that a great deal of that system was relevant for us. The report of this delegation is in the public domain. In addition, BPE has attempted to expose the current policy to all manner of international experts to insure that we are able to design a policy which is able to avoid the pitfalls encountered by other countries while incorporating the relevant aspect of others' experience. That is to say, the current MOU system in India does not resemble any one country's model. It has been custom designed for our situation and our situation alone.

SUGGESTIONS FOR IMPROVEMENT

The long and short of this part of the article by Murthy is the suggestion to organise the public sector into holding companies, if one wants to improve their performance. As mentioned earlier, this suggestion appears to be the whole reason for writing this piece. Murthy seems impatient to get to this point. He thinks organisational changes constitute the real answer to all public sector woes. There is an enormous literature on this subject and I don't think one can enter into a debate on the merits of the holding company concept here in this critique. Suffice it to mention a few points. Holding companies have worked where the goals of the organisations are clear, whether public or private. MOU is just the first step in the direction of goal clarification and a debate juxtaposing the MOU concept with the holding company concept is a non-starter.

In this section Murthy raises an appropriate question but, unfortunately, gives a completely wrong answer to suit the general tone of his article. He suggests, correctly, that for PE performance improvement it may be worthwhile looking at how large private sector and multinational companies manage their units. However, he is wrong when he claims that it is not possible
for these enterprises to lay down "neatly divisible and stable mutual obligations that can be written down for explicit measurement". One has to read any book on private sector management, to realise that all of them emphasise clarity of objectives as the starting point. In the much famous book, *In Search of Excellence*, the common factor behind all success stories was the clarity of objectives. I spoke with a top executive of the erstwhile Hindustan Richardson (makers of Vicks brand products) and he confirmed that the India division of this multinational was controlled by a couple of measurable financial indicators and each side knew its responsibilities clearly. There is also a story that when the senior Birla travels he keeps in constant touch with his units on the basis of simple measurable indicators. For example, for the car manufacturing unit, he only care about the number of cars produced each day. The point is that control can only be effective if it is based on a simple set of easily understood and measurable indicators. It may be difficult to do so but it does not make it either undesirable or irrelevant to do so. If Murthy wants academic proof of this line of thinking then he can look at Jones [1990] who following the tradition of Williamson [1975] and Jaques [1976] comes to a conclusion contradicting what Murthy asserts.

No one can say that MOU is a panacea for a public sector ill, nor can any one claim it is a perfect policy in its design as well as in its implementation. All one can say is that it is an improvement over all known previous efforts and represent a step in the right direction. Much work needs to be done to improve it further, notwithstanding the fact that it has achieved a great deal in a short period of time and is regarded to be in the MOU pudding appears to be simply scrumptious. In reply to a recent question asked in the ministry who are involved with the drafting and monitoring of MOUs. This does not, however, implicate anyone for the views or facts mentioned in this article. They remain my sole responsibility.

1. The details regarding the MOU policy have been documented extensively elsewhere [Trivedi, 1990]. Therefore, no attempt will be made in this article to repeat them.
2. As a result of recent reorganisation, the BPE is now headed by the secretary, department of public enterprises.
3. No wonder PEs take great pride in claiming to be A Government of India Undertaking. Witness their staff cars and letter heads which display this phrase prominently.
4. See, Jones and Vogelsang [1983].
5. See, Hartmann and Nawab [1985], Song [1988] and Shirley [1983].
6. For details, see Trivedi and Kumar [1990].
7. For more on the 'holding company' concept and its usefulness, see, Trivedi [1989] and Iyer [1988].

**References**


