BUREAUCRACY & INDUSTRIAL POLICY IMPLEMENTATION: THE CASE OF INDIA

by

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INTRODUCTION

Industrial development is a dear aim to all modern governments and societies. Huge sums of money and other resources are spent annually to advance industrial development. Various methods and mechanisms have been applied, some more successful than the others. Some countries have relied upon centralized planning and state intervention, others more on the market forces to achieve the aim. India is one country in which the state have traditionally played a significant part in industrialization. Through centralized planning (Five Year Plans), Industrial Policy etc Indian government have tried to advance and guide industrial development. The results are mixed.

India have passed a number of Industrial Policy Resolutions since Independence. But the implementations is tardy. Increasingly it has been realized that the intentions underlying Industrial Policy Resolutions have not materialized. A number of explanations have been advanced and steps taken to remedy the ills. It has been suggested that the government ministries dealing with industrial development need improvement, the administrative system needs modernizations and streamlining. But the positive results of these moves are limited.

The purpose of this paper is to investigate and analyse why the administrative structure developed (the ministries) failed to implement intentions underlying Industrial Policy in India. We try to answer the question why the Indian bureaucracy is unable to implement Industrial Policy. These failures manifest themselves in a number of shapes, namely, delay in processing and granting industrial licenses, inappropriate projects are implemented, administrative irregularities and corruption etc. Our basic point is that the ambition to improve and Streamline implementation of Industrial Policy through changes in administrative rules, regulations, and procedures is unlikely to succeed. The problems are more fundamental.

The paper is based on interviews with the finns in India. A number of finns operating in India were interviewed. A few people in the ministries were also interviewed.

Although the present analysis is based on Indian experience it is also applicable to a number of other countries. A number of other countries have pursued a similar policy and tried to accelerate industrial development through state intervention and planning. Their experience is similar to the India experience. The details indeed vary but the problems and the causes of the problems are often the same.

The paper starts with a discussion on traditional view on policy implementation. An effort is made to point out why this view is inappropriate for the purpose of this paper. Instead an Institutional view is relied upon and it is pointed out that three different types of organizations are engaged in Industrial Policy implementation. This framework is, then,
applied to analyse Industrial Policy implementation in India. It is pointed out that in the present Indian system to implement Industrial Policy the authority structure and the responsibility structure are not in conformity. Moreover, the ministries function more as Inspectors than as Promoters to accelerate industrial development.

THE NATURE OF INDUSTRIAL POLICY

While deliberating on the industrial policy formulation and implementation there is an overwhelming tendency to adapt the rational actor view of organizations. Organisations are viewed as instruments for achieving a well formulated aim or goal (Scott, 1981, Ch. 3). It is presumed that the industrial policy formulation aims at industrial development and the implementation is pursued to achieve this aim. The discussion is based on the proposition ‘how the things should be’ and not on ‘as things are’. The discussion based on the Weberian view presumes that industrial policy of a country is formulated by the national leadership and politicians with the view to transform the industrial structure of the nation and either to preserve or enhance the competitiveness of the domestic finns. The national leadership does the job of industrial policy formulation with sincere aims and the national well being is the overwhelming if not the sole purpose in this exercise. As in the traditional organizations theory it is presumed that the national leadership does not entertain any other aims than the development and maintenance of competitiveness of the national industries. The policies thus formulated are (should be) then implemented in the most effective manner to optimize returns to the nation. In this metaphor, the national bureaucracy too is presumed to be acting in the best interests of the nation while implementing the national industrial policy. In a typical rational perspective any discrepancy between the formulated policy and its implementation is explained as deviation, an undesirable act, and should not exist. In this view the gap between the industrial policy and its implementation is eliminate by way of enacting administrative rules and procedures which are more rational and one which assign well defined tasks to each position in the national bureaucracy. In this view, moreover, governments are pro-active players in shaping and changing the industrial situation in the country. In this normative literature decision making is merely a means to achieve an outcome (to act). Otherwise decision lack an independent value.

It is presumed that by rationalizing rules and streamlining the administrative procedures and the administrative structure it should be possible to eliminate the gap between the industrial policy as formulated by the national leadership and its implementation by the national bureaucracy. The roots of the entire problem is identified as the non-rational administration and bureaucracy. By streamlining the administration (that is, the various ministries) the goals of the national industrial policy can be achieved.

In this discussion a significant omission is that governments and ministries are treated in the same manner as any other
bureaucracy. It is indeed **accepted** that governments are **political** bodies and function on different principles than the one **idealized** by Weber. Governments are **political** bodies, elected by the citizens for a **limited duration** with the **stated** purpose to **voice** their views and **protect** their interests in a **political** arena. Such bodies are far from the ideal bureaucracy identified in the traditional organization literature where employment is **based** on a **technical** and **rational** criteria, namely, possession of knowledge and skills to **perform** a task. Such organizations function in a **radically** different manner and follow **radically** different principles than the commercial organization of the modern world. An additional feature of this normative literature is the **compatibility** between **decision** making authority and the responsibility for the **caused out-come**. Those who enjoy the authority to make decisions are also held responsible for the outcome.

The traditional literature with emphasise on 'how the things should be' rather than 'how the things really are' is of **limited** value in understanding national and **political** decisions making and implementation. Industrial policy belongs to precisely this realm. This, however, does not imply that national governments are either less **rational** or are not interested in industrial development but that there are inherent features in governmental organizations which make the task of industrial policy formulation and implementation difficult and less feasible in the manner prescribed by the traditional writers on organization.

**LEGITIMACY**

Industrial policy **formulation** and implementation is a **political act** guided by the principle of survival for the **political** actors. An important goal in industrial policy **formulation** is to **assure** survival of the policy formulating bodies and this is achieved through gaining **legitimacy** and support of the powerful actors in the environment.

Industrial policy formulation is an **act** undertaken by governments with the aim to gain visibility and to show that the government is doing or is going to do something to the problems to which the society is exposed, namely, industrial backwardness, regional imbalance etc. This is done in order to **respond** to the **demands** to which a government is exposed. Industrial policy is, then, formulated in **reaction** to or in an effort to pacify the environmental **demands**. Not doing anything could be fatal. The society may believe that government 'ought to be able to solve' the problem' and that government must do something to remedy an unpleasant state of affair. Governments must proclaim that they **exercise** control over the affairs of the state. Whether the government is really in a position to **exercise** that control is an entirely different issue. The government may or may not know this and may or may not **except** the same. Through a **formal** industrial policy formulation and a **formal procedure** to implement the same (a separate department, **commission** etc) governments signal to the environment that it is both **capable** of and is actually responding to the **demands**
of the society. The society presumes that the measures outlined by the government will be implemented. Otherwise, there is no reason why the government should go through the tiresome process of formulating an industrial policy.

In the Indian case Industrial policy formulation is an integral part of the policy of self-reliance. It signals to the Indian society that the political leaderships is able to as well as willing to chart out the fate of the country. By institutionalizing the entire process and instituting separate ministries for the purpose the aim of the government is primarily to signal to the environment its commitment and capability to remedy an 'undesirable' situation and to respond to the needs of the Indian society. This is a means to achieve legitimacy (Brunsson, 1986).

Legitimacy is the process by which organizations justify their right to procure resources from the environment to survive and prosper (Maurer, 1978, pp. 158-162). Organizations must accede to the aims and the goals of the environment to seek resources which could be financial or none financial. The environment facing organizations is, however, multi-faced. No organization interacts with an environment which is homogeneous and uniform and exerts only one demand. The environment is composed of segments with conflicting interests all of whom would demand 'their pound of the flash' from the organization. One segment of the environment may demand return in the shape of dividend in order to supply financial resources, the other section(s) may demand growth, protection of the existing employment or creation of new employment opportunities etc. The conflicting demands are a source of problem and frequently organizations are unable to satisfy demands by all the segments at the same time or at all times.

At a general level the environment facing an organization can be divided into technical respective institutional environments (Scott & Meyer, 1983, pp. 129-153). The latter defines the rules and regulations to which an organization must conform in order to secure support and assistance from the environment where as the former is the one with which organizations interacts to effectively and efficiently exchange output to secure survival (ibid, p. 140).

The importance of the two above mentioned dimensions of legitimacy varies. For commercial organizations of the type TNCs the evaluation is primarily based on commercial criteria. In the free market economies these organizations compete at the market place to sell products and services and to exchange financial and other input resources from the environment. The 'primary' criteria for evaluation is commercial and therefore these must adhere to the commercial norms (profit, growth etc) imposed by the environment. Failing to meet these criteria will jeopardize their chances to survive. However, these organizations too must accede to the institutional norms regarding pollution control, regional development, and consumer needs, to mention just a few.
Government as organizations, however, are exposed to a different set of demands. These are political organizations not exposed to the free play of market forces. The government bodies are manned by the elected representatives of people to represent divergent and conflicting interests in the society. These are primarily exposed to the institutional environment and must respond to the same (Brunsson, 1983). By their very nature these organizations are political with inbuilt conflicts. A clear output is missing and indeed these never sell anything to the market. Their survival is assured as long as they are able to reflect and respond to the divergent interests and conflicts that prevail in the institutional environment.

The divergence between the above mentioned two dimension of legitimacy could be problematic. Indeed, neither of the two are absolute and both are present simultaneously for all the organizations. There is also a conflict between the two, the more of the one may lead to the less of the other. There is a continuum along which organizations can be ranked. On the one end are the organizations with strong emphasis on efficiency in market terms, that is, produce goods and services on terms no less effective than the competitors. These organizations emphasize the management of their internal and external relationships. Internally they must efficiently divide the work, establish an organizational structure to produce the goods and services, evolve a hierarchy to achieve coordination and resolve and minimize internal conflicts, develop information collecting and interpretation routines and procedures (Simon, 1957; March & Simon, 1958). Externally they must manage their relationships with the actors in the environment, that is, the players in the market place, customers, suppliers, distributors etc (Meyer & Rowan, 1977, p.354). This is the technical aspect of operation of an organization. The problem for these organizations is to make a correct judgement on the products and the services required by the environment.

Other organizations, however, function on a different principle and their primary aim is survival (Selznick, 1948). These organizations succeed because of their ability to isomorphize with the institutional rules and regulations rather than their ability to produce goods and services required by the environment (Meyer & Rowan, 1977, p. 354). The success of these organizations is guided by their ability to reflect and integrate the norms, values, and myths that prevail in the institutional environment. These are effective and efficient not in the sense that they produce goods and services at competitive price and effectively serve the market but because of their ability to integrate into their structure and processes the norms and values entertained by the environment. Such organizations are exposed to two crucial problems. Firstly, the institutional rules and myths are inconsistent and conflict with each other. The different segments of the environment entertain different myths, institutional rules, norms, and values. Secondly, achieving institutional acceptance may conflict with the organizational
ability to efficiently produce the goods and services required by the technical environment.

Figure 1: Dimensions of Legitimacy.

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<tr>
<th>Institutional</th>
<th>High</th>
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<td>Technical</td>
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The different types of organizations in an environment possess different degrees of the respective types of legitimacy (figure 1) and a balance must be achieved. The absence of one or the other could be fatal for the continued survival of the organization. One the other hand, it is difficult to simultaneously achieve high legitimacy scores on both the dimensions.

GAINING LEGITIMACY: BUSINESS, PARTICIPATIVE, & ADMINISTRATIVE ORGANIZATIONS.

Legitimacy is vital but its supply not assured. As discussed in the previous section legitimacy could be assured by producing output consistent with the norms, values, and myths in the environment, or through adapting process and procedures valued and considered legitimate by the environment. In this connection we distinguish between three different types of organizations, namely, Business Organizations, Participative Organizations, and Administrative Organizations. These are discussed below.

Business Organizations

Through producing the valued output organizations satisfy the needs of certain segments in the environment. Similarly, by producing good financial results organizations meet the needs and demands exerted by certain segments in the environment and gain access to the financial resources. In other words, such organizations gain legitimacy primarily based on their ability to be competitive and produce output considered legitimate by the environment. What output is produced and the criteria for evaluating efficiency are laid down by the environment. These are commercial organizations. Low costs production, high quality products etc are their basis for success and the technical legitimacy permeate these organizations. In general, the criteria to evaluate organizations is pre-specified and clear and, consequently, the goals of the organizations are well defined. These are machine like bureaucracies where cause and effect are well defined (Morgan, 1986, ch. 2). This,
however, does not imply that the goals of these organizations are the same over time. Indeed, goals change over time and organizations try to achieve either only one or a few of the goals at a time. This results in bargaining and side payments (Cyert & March, 1962). At one time the organization may opt for one goal (profit) at another time an alternative goal (growth, market share etc). The existence of a well defined goal (which enables the organization to achieve legitimacy) is important and helps the organization to shape the technical core or the production process. Goals also provided the organization with criteria for decision making to achieve technical efficiency. The assistance to make 'appropriate' decisions appears in the shape of which criteria to apply in making decisions, which alternatives to take into considerations, how to evaluate the same, and lastly, how to obtain a preferential ordering among the various alternative courses of action (Scott, 1981, ch. 4). In these organizations preferences about the outcomes of an action and the causation is well defined and understood. Well defined goals lead to well defined criteria and make the task of the decision maker 'easy' and less cumbersome. The process of decision making becomes efficient and effective. In absence of well defined goals these organization may face problems in making decisions. Moreover, these organizations must develop and rely upon strong coordinating mechanisms to integrate the functioning of the various parts of the organization. The coordination can be achieved by rules, procedures, or ideology. These are Business Organizations and strive for output rationality.

TNCs belong to this category. These are commercial organizations with world-wide operations. The goals of these organizations are unambiguous, but may change over time. These finns emphasize the efficiency aspect of industrial development and try to gain legitimacy through presenting their case in terms of industrial effectiveness (in economic terms), technical upgradation, international competitiveness, and providing superior goods and services. These gain legitimacy through emphasis on a free play of market forces and free competition.

Another argument pursued by the TNCs is based on adhering to the national laws and feelings and the willingness (through decision making or structuring operations in a particular country) to suit the local environment. JVs and other forms of contractual agreements and structuring strategies are the examples (Sharma, 1983, ch.7-9). The different structural configurations provide different degrees of legitimacy. Moreover, this may also influence in which segment of the environment the finn is able to gain legitimacy. Structuring, a highly visible strategy, is an important instrument to gain legitimacy.

Participative Organizations

Not all organizations fit the above depiction. Examples are political organizations. As discussed earlier political organizations achieve legitimacy primarily by means of their
ability to reflect and **respond** to the inconsistencies, norms and values that prevail in the environment. The goals are unclear and so are the preferences about the outcome, but the causation is unambiguous but not the means and the **procedure** to achieve the same (Thompson & Tuden, 1959). In the process goals lose value and meaning whereas adherence to the social rules and procedures gain their own life and value. The norm in these organizations is not to pursue **any fixed** rules, regulations, or procedures but to reflect the inconsistent norms and values in the environment and this is the source of legitimacy. Occasionally the divergent interests represented in **such** organizations **compromise**, otherwise it is sufficient to reflect conflicts and **differences** of opinion.

It is more important to reflect the divergent norms and interests in the organizations than to achieve a goal. It is more important to be **democratic** then to be **technically** efficient and be able to **earn** profit or achieve a high growth rate. Rather than reflecting a **single** dominant goal at a time these organizations reflect a number of or no goals. A clear ranking among the goals is missing. The aim of the organization is survival and in the struggle to survive organizations coopt a number of divergent and conflicting goals and aims which is a source of legitimacy (Selznick, 1948). Indeed, the organization may even lack a clear cut goal. These organizations lack internal rules and the purpose is to **freely exchange** views and opinion. The **existence** of rules could be inimical to their purpose, that is, to freely exchange and reflect the norms and values prevailing in the environment. The principle that guide the working of these organizations is that 'we agree to disagree'. In extreme **cases** the **difference** of opinion could be as wide as to characterize these organizations as 'crowd'. Divergent interests and norms in the environment are incorporated in the organizations to gain legitimacy (ibid., 1948). These organizations seek rationality in participation and **significant** amounts of resources are devoted to 'demonstrative' activities. This is **participative** legitimacy and the outcome is speeches, papers, meeting, directives, and **documents** etc.

An example is parliament. Through a democratic representative **election** process parliaments (try to) incorporate a wide variety of interests and opinions. The people in the parliament are professional **politicians** and the views and the interests these present **during** a debate is expected to reflect the interests of their constituency. Birgersson and Westerståhl (1979) in their study described the Swedish parliament as a **scene** in which the various actors present their **respective** alternative and preference. These have **symbolic** value, an instrumental value is missing. Olsen (1983) described the Norwegian parliament as an arena which represent the divergent thoughts, values and norms in the country. Its **capacity** to influence the substance of the **political** activities of the nation or to **act** as a pro-active political **force** was limited.

The same **interest** groups are, then, represented in the various committees, sub-committees, and the other **political** bodies of
the parliament. During the deliberation on national industrial policy representatives of the different segments of the environment struggle in order to gain inclusion of their interest in the policy and the powerful interest groups are successful. Raising the interest of one segment in the society, however, is no guarantee for its inclusion in the final policy document. But these 'must' be raised even if it is evident that the effort is 'futile' from instrumental point of view. Raising an issue during the debate in the parliament has the symbolic value (Larsson, 1986). The participants in the debate, moreover, react to the happening in the society and a pro-active behaviours is rare (Jacobsson, 1989, p. 16; Brunsson & Jönsson, 1978). Important is, therefore, not to take initiative, but to wait and see the unfolding future.

Administrative Organizations

Lastly, there are organizations which are different from the above two in the sense that these are 'rule following' organizations. These are Administrative Organizations different from the Participative Organizations in the sense that the former does not necessarily seek and encourage participation by the different segments of the environment. But these organizations do integrate and reflect the values and norms of the environment by way of pursuing and following rules, regulations, and administrative procedures. It is assumed that the rules, regulations, and procedures which guide the functioning of these organizations emanate from environmental values and norms and reflect the same and pursuing these rules, regulations, and procedures is a source of legitimacy. It is neither essential that the different segments of the environment are represented in the organization nor a free exchange of views is encouraged.

On the other hand, these organizations are also different from the Business Organization and lack a well defined goal. In a sense the goal of these organization is to follow rules, regulations, and procedures and the measurement of their output is not done in the same manner as in the Business Organizations, namely, profit, growth rate, market share etc. These organizations lack quantitative outcomes and a lot of controversy surround on what these organization do and how effective these are. The holders of a position are expected to be objective without their own preferences or goals.

An example is the ministerial level bureaucracy in India. The ministries are manned by bureaucrats with lifetime employment. They are expected to follow the rules and regulations enacted by the national parliament. The structure is hierarchical and before a decision is reached files have to travel long. The composition of the bureaucracy is not based on group interests and bureaucrats are not the representatives of the different segments of the Indian society. They are an independent force, employed to interpret and enforce rules and regulations. While doing so the bureaucracy is expected to follow certain formal procedures of symbolic value. These organizations, consequently, seek procedural rationality and for the
organization action have little independent value where as rule, regulations, and procedure following is valued.

Although we identified three pure types of organizations, these are merely ideal types and may not be present in practice. Moreover, it is possible that within a single organization all these characteristics are present but to a varying degree. Also some parts of an organization may resemble one description, but the others any of the remaining two.

Achieving Legitimacy & Loose Coupling

The conflict between the two dimensions of legitimacy is problematic and must be 'resolved'. Three different mechanisms are identified, namely, talk, decision and action (Brunsson, 1986, p. 144). To this we add one more, namely, denial. Organizations may achieve legitimacy in the environment through talks, that is, talks that they nurse goals considered legitimate by (certain segments in) the environment. Or that this is already being done. Through talks organizations signal to the environment the value these assign to the norms and the values of the environment. Talks are less expensive and provide flexibility to the organization to watch and see. Talks are also suitable as an intermediate solution until the future is more vivid and better known. One need not to decide what to do in the future, these is postponed until a suitable and a more appropriate solution is available.

Similarly, a decision is made and presented to the environment. Decision creates a feeling that something is being done. In the society a 'decision' is more or less automatically attached to its implementation (action) although the decision maker may have shown no such inclination. This signals the willingness of the organization to adhere to the norms and values of the environment (Jacobsson, 1989). A decision is more definite than talk, but like talks, could be vague and change. The organization may not promise a definite time table for implementing the decision in order to keep the options open. Alternatively, decisions could be vague and do not provide the decision maker the criteria to select the various alternatives, to rank them in a preferential order etc. These have two advantages, namely, that the decision maker receives a freedom of action and still achieves legitimacy, and secondly, due to the ambiguity, decisions are interpreted differently by the conflicting interest groups. Lastly, by acting in the manner prescribed by the environment organizations achieve legitimacy. An specific aspect of talk is denial, that is, the policy makers may consistently deny complains that the interests, values, and the norms of an specific segment of the environment is being neglect either at the policy formulation stage or later while implementing the policy. This can be done either orally or in writing. The organization may simply deny that the policy is against the interests of a particular segment of the environment or that the policy is being implemented in a manner inimical to the interest of a particular segment of the environment.
Organizations may simultaneously make use of all these three mechanisms to achieve legitimacy, and moreover, the three are ‘loosely coupled’ or ‘de-coupled’ (Weick, 1969). The loose coupling could be on a number of different shapes, namely, in time, in chronological order, by subject matter, different environment, and in different organizational units (Brunsson, 1989, p.33; Jacobsson, 1989). Organizations do not equally emphasize the three mechanisms all the time, talk at one time, decision at another, and action at a third. Organizations may also use all the three simultaneously, but talks for one segment of the environment, decision for another, and action for the third. In the last case, organizations de-couple the segments in their formal structure. One segment may seek institutional legitimacy the other may seek technical legitimacy (Meyer & Rowan, 1977; Jacobsson, 1989, ch. 6). Loose coupling can also be based on subject matter, talk on one subject, decision or action on the others. Segmentation is also possible by project group which deal with action, others are engaged in talks. Consequently, loose coupling is a mechanism to manage environmental demands and not a mechanism primarily developed to resolve intra firm conflicts.

Loose coupling has advantages as well as disadvantages. Its advantage lies in that organizations can function in a more adaptive manner. It also allows all the segments in the environment to gain representation in the policy (at different times, at different locations in the government, and to different extent). The problem lies in that it is difficult to know how decisions are made, by whom, and when. The holistic approach is lost. Merely some parts of the problem is solved at a time and the various parts of the organization may move in different direction.

In the industrial policy arena all these mechanisms are applied. Firstly, policy formulation and implementation are de-coupled. The former is more a political process and achieved on the principles of the Participative Organizations. The latter is done by the government ministries which are Administrative Organizations. The policy formulation is done at the political level in which the different segments in the society participate, either through parliamentary representation or through some other political act. The various segments in the environment try to gain representation in the industrial policy through political parties, trade association, lobbying etc. Efforts are made to bring in labour representation, industry owners, the regional interests etc. The wider the representation in these discussions and deliberations the better it is, more views are reflected and more conflict and divergent interest participate. In addition to the parliament, prior to its finalization the industrial policy draft is dispatched to the divergent interests and views seeked. The idea is not necessarily to include all these interests in the industrial policy but make sure that as few as possible are left out. In the Indian case, in addition, the opinion of the state governments are taken into consideration. It is to (look) be democratic and this can not be achieved by excluding powerful segments in the environment.
The implementation task is assigned to the bureaucracy at the level of the various ministries. At this level important is to follow the rules, regulations, and procedures in handling the various applications (concerning industrial ventures) submitted to the government. These gain legitimacy through pursuing the bureaucratic rules, regulation and procedures. It is more important to process an application according to the rules, regulations, and procedures than the outcome.

The situation becomes still more problematic as in these organizations rules, regulations, and procedures are unclear as the goals are unclear and fail to provide guidance in decision making. Thereby, a common situation is that either there are no rules to follow, or there are too many of these (with a number of ‘ifs’ and ‘thens’). The latter being more common. In either case, this provides either too little or too much latitude in decision making.

The emphasis on the use of the mechanisms to gain legitimacy differs with the type of organization. For the Participative organizations the most important mechanism is talk followed by decision. In the Administrative Organization this is decision, and in the Business Organizations the most important mechanism is action (table 1).

Table 1: Mechanisms to Gain Legitimacy

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<tr>
<th>Type of Organization</th>
<th>the dominant mechanism</th>
<th>example</th>
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<tbody>
<tr>
<td>Business</td>
<td>action</td>
<td>TNCs</td>
</tr>
<tr>
<td>Participative</td>
<td>talk</td>
<td>parliament</td>
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<tr>
<td>Administrative</td>
<td>decision</td>
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INDIAN INDUSTRIAL POLICY FORMULATION I IMPLEMENTATION

In the following pages the Industrial Policy implementation is analysed. To gain a better understanding of the discussion first the policy formulation is briefly presented. The discussion is incomplete as the aim is merely to discuss the segments in the Indian society that influence industrial policy formulation. The process itself is not analysed.

INDUSTRIAL POLICY FORMULATION

In the following discussion we distinguish between industrial policy formulation and its implementation. The former is more political than the latter.

The industrial policy formulation is a political act. This is done by government bodies in which the elected representatives of the people deliberate (representing the various geographical, social, economic and a number of other
interests). Governments try to include as many divergent interests as possible. A failure on this count will imply that the support for the industrial policy will be narrow which will lead to resistance from strong and powerful groups in the society. A wide participation implies that the divergent interests gain influence in the decision making and to the extent possible their norms, values, and views are reflected in the industrial policy. For this reason the industrial policy must be formulated in a 'correct' manner, namely, in a democratic manner in which the divergent interests are allowed an 'equal' participation. The more democratic the procedure is and the larger number of divergent interests are represented the greater the chances that the industrial policy will be accepted by a larger section of the environment.

The industrial policy formulation is, consequently, guided by the political realities in the environment. But the same is less appropriate as a guide for action as these are be ambiguous and vague. In its efforts to integrate the interests of the divergent elements in the environment the government may end up producing a policy which will include a number of different wishes and desires, unable to provide clues on how to implement the policy. The various segments of the society may interpret the industrial policy in different ways depending upon their group interest. The same policy document may lead to any number of interpretations all depending upon who (which group) interprets the policy document. Moreover, over time the interpretation of the industrial policy may also vary depending upon the evolution and change in the environment.

In the context of India we see industrial policy formulation as an instrument for legitimation of the policies pursued by the government. Indian society is composed of a number of groups with conflicting and contradictory interests and demands. This is partly reflected in the sectoral composition of the society, the distribution of GNP etc. The GNP distribution in the Indian economy shows that in the beginning of the 70’s farming sector contributed around 50% of the national GNP. In the same year the industrial sector contributed a much smaller percentage in the Indian GNP. Over the previous two decades the figures have gradually changed and by 1989-90 the contribution of the agriculture sector in the Indian GNP was down to approximately 33%, whereas the industrial sector contributed a slightly less than 30%. The farming sector is a strong and influential in shaping the industrial policy. Farmers demand more resources for agriculture (at the cost of the other sectors in the economy) and want the development and establishment of industries which serves their interest (fertilizer industry, agro based industries etc). Another strong influence is the village sector, as around 70% of the Indian population lives in villages. No government can alienate either of the two groups. These two influential segments are accommodated in the industrial policy formulation and implementation in a number of ways. Firstly, there are clauses in the Industrial policy which protect the interests of these segments. The development of fertilizer and agro based industries is encouraged. Around
40% of the national budget is spent on the agriculture sector and the allied industries. The same is achieved through highly visible acts, such as establishment of separate ministries or department. There is separate department for fertilizer industry, and the agro-based industries. To further improve the legitimacy of the government in the rural areas there is separate department for small scale industries, cottage industries etc. A number of incentives and subsidies are supplied.

The different region in the country demand development of their respective regions. Poor regions want larger resources allocation at the cost of the rich and industrial development is considered as an instrument for improving the economic plight. State governments vie for industrial projects and want to advance their own interests. Through representation in the national parliament, the National Development Council etc states influence the industrial policy formulation and implementation. The interest of each state and region impinges upon the industrial policy decision in a number of ways. For example, as a custom members from each region and state is included in the federal cabinet. They make sure that the interests of their state and region is represented in the industrial policy. The Indian Industrial Policy, therefore, advocate regional balance and minimizing disparity among the various states. It is widely accepted although that this is a pipe dream. This is more a talk than a reality.

Another powerful influence is the organized labour. Labour unions want more employment and want to preserve the interest of their members. De-industrialization and the exit of industries from a region or location is resisted. These are accommodated by policies that prohibit or restrict lay-off and exodus of industries from a location. The middle class, between 120-200 million strong, wants more Western and improved consumer goods and services which implies modern and efficient industries. With the growth of the Indian cities the influence of the Indian middle class on industrial policy have become stronger. Their interest is accommodated through encouragement to establish consumer goods industries (TV, HI-FI etc). The domestic industry developed since Independence (through the policy of import substitution) wants continued protection against imported goods, whereas the new generation of industrialist want freedom to import and improvement in the international competitiveness of the Indian finns. This implies more and liberal import laws. The industrial policy is expected to seek a balance between these two conflicting interests. This is achieved through a progressive liberalization of import laws and through incentives to export. Moreover, the policy makers continuously talk about how bad the situation is, that protection against imports can (should) not continue for ever etc. Taking action is, however, difficult.

While formulating the industrial policy the government is asked to balance among the above mentioned and a number of other demands imposed by the multi-faced Indian society. The industrial policy document tries to accommodate as many as
possible of these divergent demands and a number or all these items are mentioned in the industrial policy documents. This allows the government to seek support from the powerful segments in the Indian society, namely, labour unions, farmers, and the middle class. The industrial policy is formulated in a manner which appears to assist farmer, labour, the middle class, and the domestic industry.

The government is, however, not in a position to satisfy the demands of all these interests through action. The other two mechanisms, namely, talk and decision are used frequently.

Implementing such an industrial policy is difficult as it is ambiguous and decision makers in the bureaucracy do not receive the clear signals on how to make decisions. A lot of scope is left for individual decision makers to interpret the policy document and still to be correct and be in line with the industrial policy of the country. On the other hand, in the absence of an unambiguous policy the bureaucracy feels unsecured in implementing the decision. They may annoy one or the other powerful group and be a target of attack and criticism. The combination of insecurity and the wide discretion create inactiveness. One strategy is not to act. A different strategy is to gain legitimacy for what is done and this is achieved through reference to rules, regulations, and procedures.

In industrial policy implementation finns primarily interact with the bureaucracy and the clearance from these instances is a source of legitimacy for the finn. It signals to the society that the finn makes a positive contribution to the prosperity of the Indian society (otherwise the bureaucracy would reject the proposal). For TNCs this implies that the finn brings in new technology, improves the balance of payment situation etc. Thereby, clearance from the bureaucracy is a source of legitimacy which may help the finn to gain access to less expensive capital, and market. Evidently, finns try to show that they adhere to the rules and regulations enforced by the bureaucracy. Finns invest resources to detect in advance who is going to take care of their file, how he interprets the information, and the general trend in the decision making. For all these reasons a continuous contact with the bureaucracy, both before a project proposal is submitted and when it is under processing, is essential.

Cultural Factors

In our previous discussion it was stated that environment is the source of legitimacy. In the Indian environment an important element is the cultural factor. This is important as the present day Indian society is composed of at least two groups, namely, the Western style elite, and the rural India respectively. The behaviour of these two groups is rather different. The former is more guided by the Western thinking, technology, and economic rationality. The latter are more traditional, and occasionally fatalistic (Hofstede, 1984). The elite in the Indian society have always nurtured the myth that
the India can improve its economic lot through rigorous and detailed planning. Thus, the Five Year Plans and Industrial Policy. In this view industrial development of India should be guided by the policies laid down by the federal government. A myth prevails that Planning leads to better and more appropriate industrial development. Moreover, the grandiose Five Year Plans and the Industrial Policy are means for the political parties to vindicate their stand and to show sincerity. These are a means to impress upon the citizens the capability as well as the willing of the politicians to act. Large plans symbolize the desire of the politicians to accelerate the growth in the economy, and therefore, preferred. Large plans provide decision makers opportunities to allocate financial resources to a number of different segments of the Indian society and seek legitimacy therein. The financial allocation to each sectors may be small but this creates an impression in the society that their interest is being taken care of. In addition, large plans also provide opportunities to patronise the different segments of the Indian society. This allows opportunities to the political decision makers to allocate more resources to those segments which they represent (a particular geographical area, state, constituency etc). Individual politicians gain legitimacy and show to their ‘clients’ that things are moving, action is being taken, and his ability to solve the problems facing a particular segment. The policy makers, following the Hindu tradition, seems to be more comfortable with the task of grandiose vision and design (Pie, 1985, p. 144).

This is further strengthened by the Indian tradition to create patron-client ties (Pie, 1985). In exchange for vote, praise, and homage politicians provide favour. This is a means to create obligations whereby voters are obliged by the politicians. This is not uncommon that a politician will remind his voters what they received from him in the shape of employment opportunity, or development of the area etc. In exchange the politician will seek a prolongation of his mandate. He will always remind the voters of his good intention. Talks are more important than action.

The process of implementing the plans and the Industrial Policy is hardly ever given a sincere thought. The Indian industrial bureaucracy, like the other Indian bureaucracies, is expected to function according to the rules and regulations and each individual occupies a position in the system. The system is hierarchical and the superior-subordinate relationships evident and important. The lower levels must pay respect to those at the higher levels.

**IMPLEMENTING INDUSTRIAL POLICY**

In industrial policy implementation primarily two types of organizations are engaged, namely, Administrative (the bureaucracy) and Business (TNCs etc).

Industrial policy implementation is a bureaucratic phenomena. The policy is implemented by the bureaucracy manned by people who have worked in the same department for years. A number of
ministries (the Ministry of Industry, the Ministry of textile, the Ministry of Chemicals and Fertilize, the Ministry of Heavy Industries etc) are engaged and these are loosely coupled to each other and to the rest of the environment by political bodies, like the parliament, and the various parliamentary committees.

In implementing industrial policy vague industrial policy documents provide little assistance and guide-line. Rather the implementation is guided more by bureaucratic practices, traditions and who is there to implement the policy. Moreover, since the industrial policy document itself provides little assistance in implementation and the goals are unclear it is more important to adhere to traditions, process, procedures, and rules. The more ambiguous the policies the larger the emphasis on adherence to the rules, procedures, and process.

Companies seeking industrial licenses initiate the move and submit application for a license (new production, expansion etc). These are then treated and dealt upon within the ministries and at the various hierarchical levels in each ministry until a decision is reached (grant or reject an application). In this process a number of gaps develop. Firstly, it is the responsibility of the Company seeking a license to formulate an appropriate proposal. These possess expertise, are familiar with the technology and the production process, and clients. In the case of TNCs these are held by the subsidiary itself or by the parent Company or some other sister company in the group. These enjoy business related, first hand information. These are also commercial risk takers. In the ministries dealing with the licensing application a corresponding level of information and knowledge is missing. A majority of the people engaged in the decision making are non technicians and have never ever engaged in business. They avoid commercial risk taking.

The bureaucracy, then, achieves legitimacy by emphasizing rules, regulations, and procedures. It is, however, presumed that these lead to a better industrial situation for the country. In this process important is, however, not the intention behind the rules but the wordings of the rules and procedures.

In the absence of measurable outcome (product) the success of the Administrative Organizations like ministries is based on surrogate measures, namely, time taken to process an application, number of questions asked (which illustrates the thoroughness with which the rules are applied), the number of papers and documents seeked and dealt with, the number of applications sanctioned or rejected etc). There is, then, a natural tendency in the bureaucracy to seek more and more information, papers, and ask questions. In this manner the ministries show to the environment that they are effective, and exercise control over the business finns, and protect the interest of the environment.

Moreover, what the ministries may see as a necessary piece of information and knowledge for making decision, the companies
may see as useless, irrelevant, and unnecessary. But the bureaucracy may justify queries and inquiries as they share responsibility in case the venture is a failure. Since they have processed the application its failure can initiate criticism. An official clearance for a project proposal confers legitimacy on the project and in case of failure the bureaucracy may have to share the criticism.

A proposal under consideration or scrutiny, however, implies no such commitment from the bureaucracy. In a resource scarce society there is an excuse to prolong the process to grant licenses merely to keep the states commitment to a proposal low. Applications under consideration implies little or no official commitment. Less criticism is faced.

Promoters vs. Inspectors

The industrial policy in India is expected to lead the industrial development and is awarded a pro-active roll. By pro-active is implied that goals are specified, alternatives are derived and weighed against each other, these are operationalized, and the results are compared. Lastly, corrective action is taken. The pro-active player should know what he wants (Jacobsson, 1989, p. 147). Not only that the state should remedy the prevailing industrial problems but also it should foresee the problems and eradicate the same in advance. The policy implementation agencies are expected to be the pro-active catalysts in industrial development and transformation. They are expected to act as the Promoters and the pro-active partners in policy implementation.

In reality, however, the situation is different and the bureaucracy merely act as Inspectors and pursues an strategy which at its best is reactive. A large majority of the ventures are conceived by the business finns who formulate goals, seek technology, analyse the market and clients, prepare an industrial proposal and submit the same to the bureaucracy. The bureaucracy, in turn, go through the information, inspect the proposal, as a rule seek additional information, negotiate with the Company and then finally make a decision. In this process the important thing is to create the illusion that the rules and regulations are being followed to protect the interest of the country. However, hardly any where in this process bureaucracy functions as Promoters of industrial development in a pro-active manner. The bureaucracy is reactive and functions as an Inspector.

To be a pro-active Promoter demands that the bureaucracy formulate the proposal, analyse the market, master the technology, are informed of the market competition and, lastly, but not the least important, are willing to take risk. Indian Ministries and the people employed therein lack these. At the lower level a typical clerk has no business and industrial experience. The same can be said about the entire ministries. Very few, if any, of the higher level decision makers have ever worked in a commercial field. A majority of these were recruited in the bureaucracy as young officers directly after the college or university level education.
Their first hand knowledge of industrial activities is minimal and their actions are guided by myths and beliefs. The majority of these people have spent their entire life within the government organizations and gradually advanced to the higher position in the hierarchy. To some extent their position in the bureaucracy is contingent upon the number of years of experience in the ministry, which generally bears little relevance for the future direction of industrial development of the country. In addition, a number of decision makers are educated in subjects other than technology or business (like languages etc). These are not in a position to make a suitable judgement on complex commercial and technical issues.

On the other hand, individual enterprises are expected to formulate an appropriate industrial proposal. They are familiar with the market, technology, and competition. They are also better familiar with the direction of future changes. These are experienced and are in a position to function as Promoters. In reality, however, the law provides the same with few opportunities to function as a Promoter as every aspect is controlled and sanctioned by the bureaucracy. Therefore, even these are unable to be the Promoters.

In other words, the Indian system lacks a pro-active Promoter in industrial policy implementation. Hardly any one is able to take initiative, and every party acts more as a reactive partner.

Authority, Responsibility, & Visibility

The pro-active view in our context implies that the ministries are assigned the authority as well as responsibility for the task of implementing the industrial policy. The reality is different. We argue that in the Indian system the authority and the responsibility structures do not conform to each other.

Inspectors enjoy the authority to seek information on a project (scope, scale, investment, technology etc). By authority is implied legitimate power. In the Indian context the bureaucracy enjoys all the power and authority to seek information on every aspect of an industrial proposal. In the case of TNCs additional information on the parent company can be asked for. How the information is used or would be used, how the claims made by the finns is rejected or accepted etc. is the sole prerogative of the bureaucracy. The authority thus enjoyed is, however, primarily a 'negative' authority, namely, the authority to say 'no', 'what is not acceptable'. There is a lack of positive authority. The authority of the Indian bureaucracy is based on its power to say 'no' as long as the denial can be 'legitimatised' by referring to the existing rules, regulations, and procedures irrespective of the merits of the denial.

Due to the lack of information and the first hand experience the bureaucracy is not in a position to make a positive use of the available authority. To act in a positive and pro-active
manner the bureaucracy would require informations and knowledge which is, as mentioned earlier, rare.

The finns, on the other hand, primarily bare the responsibility and risk. Responsibility to formulate a project, collect information and submit the whole to the bureaucracy. These also bare the responsibility to collect data and support their proposal. Lastly, they bare commercial risk.

There is, consequently, an inbuilt imbalance in the authority vs. the responsibility structure in the Indian system of industrial policy implementation and the balance is in favour of the bureaucracy rather than the business enterprises. In the absence of conformity between the responsibility and the authority structure the latter lives an independent life decoupled from the former. In process, however, Inspectors (the bureaucracy) skilfully try to show that the authority is used in conformity with the interest of the society. Illusions has to be created and this is done with the reference to the rules, regulations, and procedures. The application of the policy diverge from its intentions and it is still difficult to pin point the responsibility for the failure to implement a policy.

Due to this dichotomy between the authority and the responsibility structure the Inspector can deny any proposal put forward by the finns or may keep it pending while seeking invariably additional information related to the venture. Moreover, as rules and the regulations at the higher administrative levels are vague the application of negative authority is made readily feasible. Important is not what is done but what can be legitimatized with reference to the existing rules, regulations, and procedures. If the number of rules, regulations, and procedures are large and detailed this leads to a perverse democracy (Crozier,1964), that is, a system in which no one enjoys the authority to make decisions. If the number of rules, regulations, and procedures are few and vague it is difficult to pin point the responsibility and hold any one responsible for the failure. A common situation is that there are too many laws, frequently so many that hardly any one can keep a trace. A proposal that is acceptable from one point of view (industrial growth rate) is unacceptable from another point of view, regional development or from the point of view of balance of payment. Avenues to reject or delay a proposal but still gain legitimacy are infinite.

In exercising authority the Indian administration is primarily engaged in a ritualistic, ceremonial behaviour. This has to be done not because it leads to a better and appropriate implementation of the Industrial Policy, but because this is a source of legitimacy for the bureaucracy. This serves a number of different purposes. This is a source of feeling (illusion) in the bureaucracy that they control the development. The more questions are asked the more the feeling of control. To the society this gives the impression that the bureaucracy is doing the task assigned to it. The state is in control of the
industrial development and its direction. In the absence of such an exercise, the industrial policy is characterized as laissez-faire, directionless, too much favourable to the TNCs and the other private sector finns, and indeed, pro-capitalist and as a corollary, dangerous, loosing control over the destiny of the nation, and fatal. In this process little attention is given to the questions that are asked, for what reason, and the relevance of the question for implementing the intentions of the Industrial Policy. Questioning has the ceremonial value and synonymous to control (for the sake of the society) by the Inspector. Rules, regulations, and procedures create illusion of pro-activeness, control and desirability. In this process of gaining legitimacy important is the visible behaviour, that is 'how things look like', rather than the real or the invisible part of the behaviour, that is, 'how things are' (Selznick, 1965). The former as shown to the society deviates from the latter and the two are either de-coupled or are only loosely coupled. Evidently, in this process the invisible behaviour is more significant for undersigning how the industrial policy is implemented than the visible behaviour which is ceremonial and ritualistic.

Behind the scene bureaucratic decision making is frequently guided by other aims and goals than the one mentioned in the rules, regulations, and decision making procedures. Kinship, caste, family ties, and personal gain seeking imping upon decision making. Hypocrisy is common. The visible (to the public) talks, decisions, and actions are de-coupled from the invisible ones. The former conforms to the rules, regulations, and procedures, the latter need not do so. Hypocrisy is rewarded as well is rewarding. Behind the scene Inspectors entertain sufficient avenues to further their own end at cost of those of the society. In reality a number of questions are asked by the Inspectors merely to gain favours and to seek personal gains. The invisible behaviour allows the bureaucracy to 'feather the nest', namely, to use the organization for personal benefits (Perrow, 1986, ch. 1). The people that occupy a position in the bureaucracy behave as if they own the position and successfully try to achieve personal ambitions (power, wealth etc). These come in the shape of money, gifts, free use of applicants cars, guest house etc. Results of our survey proves the point. Important is consequently familiarity and the ability to understand and comprehend and adjust to the invisible actors in the industrial policy implementation as well as the invisible aspects of the manner in which industrial policy is implemented.

The legitimacy of the bureaucracy is not contingent upon its ability to implement the industrial policy in conformity with the intentions but its ability to hide and minimize the exposure of the invisible behaviour. Important is the ability to explain the anomalies in the industrial policy implementation with reference to the existing (missing) rules, regulations, and procedures.
CONCLUSION

The purpose of this paper is to discuss Industrial Policy implementation in the Indian context. The role of the Indian bureaucracy was discussed and it is pointed out that in the context of Indian Industrial Policy bureaucracy is more or less an independent power and pursue’s its own ‘rules, regulations and procedures’. The purpose of the bureaucratic actions is to gain access to legitimacy and this is achieved through rule following.

Behind the scene, however, Indian bureaucracy pursues a number of goals and aims of its own only a few of which are overt and visible. These behind the scene activities are important to gain a proper understanding on how policies are implemented. This is made easy as the responsibility and the authority structures deviate. Those with the authority to make decisions are not responsible for the outcome. This allows the bureaucracy a wide latitude in decision making and pursuing its aims. In this process decisions are delayed, if these are ever made. Moreover, ‘incorrect’ decisions are not uncommon.

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