

This book is an attempt to share thoughts about good practices. It lists and describes a basic set of good practices that are relevant in the context of a producer company. It also highlights the importance and practical implementation of these good practices

Good Practices for Producer Companies



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Preface

During the last three to five years there has been a significant boom in the number of producer companies that are coming into existence in various parts of India. In keeping with the conception of a producer company as something which combines cooperative principles with the structure of a company, the Government has come up with several schemes and subsidies providing preferential treatment to producer companies. However, there is also a close watch and scrutiny of the functioning of APCs and their governance. In this context it becomes all the more important for producer companies to demonstrate that they not only comply with the various legal and regulatory requirements but they are putting in place a variety of what may be called as – “Good Practices”.

This book is an attempt to share with the reader thoughts about good practices and list and describe a basic set of good practices as well as their importance and practical implementation. We must add however that in the area of good practices there are a large number of practices which broadly pertains to the management of accounts and finances. These however, do not form part of this book and they would be the subject of an independent publication.

We invite readers to take up and discuss in groups various practical exercises that have been suggested at the end of the book. These do not necessarily have a – “correct / right answer” and the purpose is to get each reader and team reflecting on what is meaningful and what works (or does not work) in their experience or context. The authors would be happy to have such experiences shared with them.

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A.V. Balasubramanian
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CENTRE FOR INDIAN KNOWLEDGE SYSTEMS :

A Brief Profile

Objectives

The Centre for Indian Knowledge Systems is an organisation devoted to exploring and developing the contemporary relevance and applications of traditional Indian knowledge systems - with the focus area being agriculture. Our aim is to strengthen and revitalize indigenous sciences and practices.

Activities

Some of the major programmes of the centre are :

- ◆ Action Research and Training Programmes on various aspects of sustainable agriculture.
- ◆ Empowering the farming community with organic farming technologies to enhance their livelihoods.
- ◆ Conserving Indigenous varieties
- ◆ Supporting formation of Farmer Producer Companies.
- ◆ Developing organic packages for crops such as paddy and cotton.
- ◆ Research on the applications of Vrکشayurveda (Traditional Indian Plant Science).
- ◆ Preparation of audiovisuals on various aspects of organic farming.
- ◆ Publication of books, posters and newsletters on Sustainable Agriculture.

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Chapter - 1

BACKGROUND AND INTRODUCTION

Problems faced by the farming community

The problems faced by the farming sector may be broadly classified into technical problems and organizational problems. Technical problems pertain to topics such as – declining soil fertility and water table, diminishing biodiversity and bioresources. In terms of organizational problems, the following is a list that may be considered as illustrative rather than exhaustive.

- Dismantling / decreasing state and public support
- Increasing power of agribusiness
- Credit - rising cost and problems of access
- Price volatility
- Competition
- Lack of infrastructure
- Access to technical advice
- Information asymmetry.

While these are problems faced by Indian farmers in general, small and marginal farmers are particularly vulnerable. There have been various kinds of efforts and approaches to solve them. One such effort led to the concept of producer companies. In the year 1999 a high powered committee under the Chairmanship of Dr. Alagh was set up by the Ministry of Law, Justice and Corporate Affairs of the Government of India, to examine and make recommendations with regard to the following points.

1. Framing a legislation which would enable incorporation of cooperatives as companies and conversion of cooperatives into companies.
2. Ensure that the proposed legislation accommodates the unique principles of cooperatives business within a regulatory framework similar to that of companies.

The committee submitted its report in March 2000. In the year 2001, the Companies Amendment bill in the Lok Sabha was introduced. In 2002 December the companies amendment bill passed by Lok Sabha and Rajya Sabha, obtained Presidential assent, In February 2003 the Act came into force, by the incorporation of a new part IXA to 1956 Companies Act.

Producer Companies Through the Years

The first Producer Company was registered in the year 2003 and during the first five years the formation of producer companies was rather slow. However, it received a significant boost during the last three years. Currently (as of 31st March 2015 – information from the website of MCA (Ministry of Corporate Affairs)), there are 1587 producer companies in various parts of India. The States that have a major share of the producer companies are Maharashtra (375), Uttar Pradesh (205), Madhya Pradesh (174) and Tamil Nadu (132).

Good Practices Vs. Legal Requirements

In terms of the running of any enterprise or organisations there are a variety of requirements that may have to be fulfilled. Some of them are legal requirements which are mandatory. There are several others which are in the nature of what may be considered as – good practices / best practices etc. – these are not mandatory but experience suggest that they are valuable practices. In the context of producer companies such good practices may be considered particularly relevant and important due to the following reasons –

- This institutional form is meant to combine principles of cooperatives with the organizational form of companies.

- The government has come up with various provisions to provide support for producer companies and hence they would be under close scrutiny to ensure that they are indeed maintaining high standards.
- In a sense it can be said that in terms of institutional values and expectations the producer company occupies a place that is intermediate between a private company and a non-profit institution (such as a trust or a society which is not for profit).

The purpose of this book is to provide a general introduction to the topic of good practices, list and discuss some key good practices and also discuss the process of putting in place good practices. After this, a set of exercises and group activities have been suggested which would be a good learning experience. Finally, some references and additional reading have been suggested.

As against the above requirements which are legally required and mandatory, there are practices / procedures / conventions which may be adopted by various organisations voluntarily. These are based on an understanding that such practices help the organization to perform better and to achieve their goals and objectives. Some of these may be domain specific, in the sense that they may be useful for organisations working in particular areas – such as – steel industry, food processing etc. However, there are also several practices which are more general and generic. These do not necessarily depend on the kind of activity that the organization is engaged in. They tend to be of a more general nature. The purpose of this book is to provide an introduction to some of these good practices and share ideas and examples drawn specifically from the context of FPOs / APCs.

In this context, we would look at the following themes -

- Good practices : What are they / where to they come from?
- Illustrations / discussion.
- Putting in place good practices.
- What is their importance?

What are Good Practices ?

These are practices / procedures / systems that may be considered as good or “Healthy”. They may be general practices or practices that are pertaining to – administration, conduct etc. For example, very often there are proverbs or sayings which contain in some sense the distilled wisdom from experience such as - Look before you leap, An ounce of practice is better than a pound of preaching etc.

Giving Shape to the Ideals of Corporate Governance

In the context of corporate governance quite often the principles that are considered very important are - the principles of accountability, transparency, ethics and fairness. These need to translate into real everyday practices and policies which the company must adopt. These are popularly called ‘good practices’ or ‘best practices’

Chapter - 2

LISTING AND DISCUSSION OF SOME SELECTED GOOD PRACTICES

The following may be considered as a general list of some good practices.

1. Democratic functioning
2. Following proper / due process
3. Transparency
4. Social and Gender justice
5. Maintaining confidentiality
6. Diversity
7. Collective responsibility for decisions
8. Ensuring continuous learning and improvement
9. Accountability
10. Being answerable to all stakeholders
11. Balancing business and social objectives

There may be several other such practices that one can identify and the above list should be considered as representative and not by any means exhaustive.

1. Democratic Functioning

In an APC the shareholders may be diverse in several ways, such as - Men and Women, Small, Marginal and Large farmers, Landed and Landless farmers, Farmers distributed in various locations, farmers cultivating several crops etc. Democratic functioning would mean that we provide opportunities for all these shareholders to participate in making decisions and they must be represented reasonably in

various bodies that make decisions and hold power. For example, let us consider an APC with 1,000 shareholders and let us assume that it has a Board of Directors with 10 members.

If there are 600 male and 400 female shareholders we should see if they are represented reasonably on the Board. If only one of the Board members is female there is certainly an under representation of women. If 40% of the members are landless we should see if they have a reasonable representation on the Board – say 3 – 4 members out of 10.

Considering that the shareholders may have various kinds of diversities, it would be truly challenging to ensure that there is a reasonable representation of various of these categories. Nevertheless, it would be a good practice to be constantly aware and conscious of the need for such representation.

Democratic Attitude

Democratic functioning is not merely a matter of ensuring that there is representation of various categories and diversities in decision making bodies such as the Board. While this is a starting point and may be a necessary condition it is also essential that a democratic attitude must be part of the administration and functioning. The attitude may be reflected in many ways such as –

Conduct of Meetings

Very often a gathering may have very many different or divergent view points on several matters. This may be particularly critical in cases where the decision may have implications for allocation of resources that may benefit various members. In such cases it is essential that sufficient time must be spent and patience must be exercised to make sure that various viewpoints are heard. There may be a tendency to move on with the meeting by making decisions based on voting / show of hands. However, it is often a good idea to ensure that sufficient time is given to everyone to voice their views and to try and achieve a consensus. It is also a fact that in many

gatherings, a few persons who are vocal and can express themselves fluently may be dominating the proceedings. Of course, these are not necessarily the only persons who have something worthwhile to contribute to the discussions. Often there may be members in the group who are knowledgeable but they may be shy or silent unless specifically invited to speak. In such cases the Chairman may have to play an important role to ensure that the group as a whole can benefit from all the experience and wisdom of the members. It is essential that when a decision is made all the members are convinced by the reasons and arguments. Very often there are a few members who are not convinced but are only silenced by a majority or even a very vocal minority. This would over time lead to a lot of resentment among the members.

Timing and venue of meetings

Due attention has to be paid to make sure that the meeting is organized at a time and location that is convenient to all / most of the members. For example, if the members are drawn from two different locations / panchayats that are quite far from each other, it may be a good idea to ensure that the meetings are held alternately in the two locations unless there is a compelling reason to chose only one location.

Similarly, the timings of the meetings also be important. For example, it is often observed that women members may be unable to participate in meetings that are held late in the evenings or at night. The reasons may be many, such as – conflict with other commitments and duties at home, safety and practical aspects of travel etc.

2. Following Proper / Due Process

All functioning and making of decisions must follow a due process. For example, these may pertain to various matters such as - selection

If only those birds sing who sang the best, indeed the forests who would be very silent.

of staff, purchase of equipment, etc. This means that in the process of making any decision –

- There must be clearly laid down criteria about the basis on which decisions are made.
- It must be clear as to who is responsible for the decisions.
- The process of decision making must be such that this is in the best interests of the organization.

We will now illustrate examples of due processes taking two different instances, namely – selection of staff and purchase of equipment.

Selection of Staff

Let us take for example the case of selection of a staff member. In the selection of staff there must be a clear definition / understanding on the following points.

- What is the job description
- What are the minimum qualifications / experience required of the candidate
- What are the factors that may be considered as additional qualifications
- What are the conditions of service and what would be the salary and benefits
- Who is responsible for making the selection

It must be clear that the selection is made based on specific objective criteria and not just the whim or fancy of one or two persons. There must be sufficient opportunity for members of the Board or any shareholder to make suggestions about persons who are suited for the job and opportunity to circulate the advertisement for the job formally or informally. It is also a good idea to have basic documentation that covers the following matters.

- Advertisement issued / circulated and date

- Tabulation of the applications received
- Listing the applicants who are shortlisted for interview or detailed review
- Processes by which the selection is made can be documented properly for the record. A sample documentation is given below.
- A selection committee consisting of three persons interview six shortlisted candidates.
- They were assigned marks and graded based on – qualifications, experience, motivation, additional qualifications etc. They also decided on the ranking of the candidates and the document is signed by all three members of the selection committee with date.
- Three candidates were shortlisted and a job offer was made to the first candidate.
- He was informed that he has to join within a period of - days/ weeks of the offer.
- After this the two shortlisted candidates were informed that they are on the waiting list. They were told that their CVs are kept in a file and they can be considered for a suitable job if there is an opening within the next six months.
- The other three candidates were sent regret letters.
- After the end of six months all the correspondence, CVs etc. can be discarded except for the summary sheet documenting the process and decisions.

Purchase of Equipment

In the purchase of any major equipment there must be clarity about

- What are the specifications
- One must obtain quotations from at least three sources for the same equipment if it is of substantial value (eg.) computer, printer etc.

- Clarity about other costs such as – installation, transport and after sales service and follow up

Decision for purchase must be based on the above considerations which must be documented clearly.

3. Transparency

Transparency would mean that the basis for making key decisions and the process for making them must be shared in a proper manner with all the stakeholders who are entitled to know this. For example, supposing an APC has 1200 shareholders and they are approached by the agriculture officer of the district with an offer of providing certified seeds to 200 farmers cultivating paddy for one acre for each farmer, how does the APC decide about the farmers who would receive these seeds ?

There are two aspects to this namely - due process and transparency. The aspect of due process has already been dealt with earlier. Transparency in this context would mean that the criteria and the process by which the selection was made is shared and made known to all the persons concerned – in this case the shareholders. Such transparency would ensure that –

The shareholders understand that a due process has been followed and the decision is not based just on the individual liking or prejudice of some office bearers. For example, the criteria for selection of farmers may be the following :

- Identify those farmers who are cultivating paddy during the crop season – say there are 400 such farmers.
- If the APC is working in four different panchayats the decision could be that from each panchayat 50 farmers are selected for the seeds.
- If in any panchayat more than 50 farmers are eligible, priority would be given to – farmers who have a smaller landholding and farmers who have not defaulted on their payments with respect to facilitation fees, membership etc.

- The APC has the responsibility to ensure that it maintains clear documentation about the farmers to whom the seeds were distributed and submit a report as required by the department with details and photographs. A Board may be set up in a prominent place in each village or near the fields announcing that the farmer is using seeds distributed by the department. It should also be prepared to arrange for field visits where the officials can see the actual places where the seeds have been distributed. The APC may charge a facilitation fee that can be collected from each of the beneficiary farmers.

What does Transparency Achieve?

Transparency helps APCs in various ways and some of them are listed below.

- The stakeholders are convinced that the process of decision making has been fair.
- In case there is a specific complaint or grievance there is a scope to voice the complaint and improve the processes.
- For example, a farmer may suggest that preference should be given to those farmers who have not benefitted from any government subsidy during the current year – if this is agreed upon then it can become part of the decision making processes for the future.
- Over a period of time this ensures that there is a sense of ownership and participation from all the members and stakeholders.

Transparency – for APCs

Transparency includes the disclosure of relevant information regarding various policies and processes of the Company to all its stakeholders. Transparency would include

- Timely, accurate disclosure on all material matters, including the financial situation, performance, risks and opportunities for the company

- All the relevant financial information of the company is disclosed to the shareholders and made available on demand to any stakeholder
- Non-Financial information that is relevant for any stakeholder is disclosed in a timely manner
- Financial documents are prepared according to approved standards as mandated by the industry
- There must be an independent and external auditor who conducts audits of the books of the company on a regular basis

4. Social and Gender Justice

The functioning must ensure the fair and good participation of – men and women, persons belonging to various social backgrounds etc. These may be persons from various communities as well as small / marginal / large farmers and landless persons. Here again persons belonging to various of these categories must find representation in the decision making bodies. The various programmes and activities must keep in mind interest of these different sectors. These must not be seen as – “nominal concessions offered so that things would look good on paper” – rather these must be substantial in operation. Let us take an illustration.

Supposing an APC is able to access a loan for working capital from a bank of about Rs. 25 lakhs. There may be various kinds of proposals that can be generated as follows : -

- There can be a proposal for the setting up of a storage godown for fruits and vegetables – this would provide support for those members who cultivate horticultural crops.
- There can be a proposal for providing support for backyard poultry or vermicompost units. These will provide support and employment for those members who are landless.

It is essential that the Board of Directors should take a decision carefully considering the demands of various of the stakeholders

including farmers who are landless and those who have land. It is clear that in such cases the decision making is likely to be more balanced and fair if there is a proper representation of various stakeholders in the Board.

5. Maintaining Confidentiality

In the course of discharging duties for a producer company a person may come into possession of information that is sensitive or confidential. These may be –

- Decision about hiring of a candidate
- Decision about sale of agricultural produce and the prices at which they may be sold
- Purchase of land for the company

Maintaining confidentiality would mean that – confidential information should be shared / discussed only with the concerned persons as and when it is required for the work. Information should be shared with any other persons only on a – “Need to know” basis. Improper sharing of information may lead to legal problems and issues of various kinds. In this connection let us take a look at the following matters.

- Sharing of information should be only on a – “Need to know basis”. For example, a member of the Board may know that the APC has decided to hire a particular candidate as Account Assistant since he has performed well in the interview. However, it is not necessary or required that he should share this information with his wife or brother who may be shareholders since there is no need for them to know this information.
- However, he may have to share this information with the administrative officer since arrangements have to be made for the issue of appointment letters, allocate space in the office where he would be seated.

- Similarly, he may have to share this information with the Accounts Manager, since the hiring of the candidate is relevant to his work.
- Very often persons who hold responsible positions have access to information which is confidential. It would be improper and unethical on their part to share this information with anyone who is not entitled to it. It would also be particularly improper or even illegal to do so for personal profit or gain. Consider the following examples.
- The APC has a stock of 100 tonnes of paddy which they purchased three months back and they are holding on to it waiting for a good price.
- During the meeting of the sales committee it was decided that the paddy should be sold as soon as possible since there was a danger that there may be a pest attack.
- The Sales Manager is therefore instructed to sell the paddy as soon as possible for the best price in the market.
- If this information is passed on by a member of the sales committee to a trader to whom the APC wants to sell the paddy, he can offer a lower price since he is aware that the APC is anxious to sell the stock very soon.
- This kind of behaviour is improper and unethical.
- In case the Board member who shares such information benefits from it personally then he is also liable to legal action because of this.

6. Diversity

Diversity can be of various kinds such as – landholding, caste, gender, etc. The attitude towards diversity can be of various kinds such as –

- Avoid or minimize diversity
- Tolerate diversity

- Accept diversity
- Welcome and encourage diversity

What do each of these mean and what are the Positive and Negative Aspects of each Approach?

Avoiding or minimizing diversity means that diversity is basically seen as a problem. In this approach one may end up with having a group of members with very similar / identical background or skills or experiences. In an extreme situation this may mean that several / all members of a company or Board belong to the same community or even family. This could give rise to problems of various kinds such as –

- Difficulty in accessing subsidies and benefits offered by the State. If all the Board members of a company are from the same family or community there may be a doubt about whether a public cause or objective is being served.
- It may be difficult to review performances, targets, delivery of results by various office bearers if the body performing the review is a group of close relatives.

Welcome and encourage diversity

The other end of this spectrum is to welcome and encourage diversity. This approach has the following features.

- Diversity with respect to membership in terms of types of agricultural operations such as – growing different crops, distribution in two or three different ecosystems etc. may help in minimizing risks.
- Diversity in membership can also ensure that we have members with different kinds of skills and experiences that the company can utilize.
- Diversity can be a problem if there is constant disagreement about where and on what investments should be made (eg.)

should the company invest on a solar drier for coconuts or a value addition unit for fruits.

- Diversity can be a problem if there is a great difficulty in having a consensus and arriving at decisions.

In most real life situations the diversity will fall somewhere between the two extremes described above. One has to take a realistic view keeping in mind various factors such as –

- The company should reasonably accommodate as members all persons from the same geographical area.
- In case there is a specific focus in terms of the produce it must be clearly spelt out in the MoA (Memorandum of Association) of the company so that those who buy shares are clear about what they are subscribing towards. For example, - “ABC Coconut Farmers Producer Company Limited” is making the objectives very clear and it automatically restricts membership.

7. Collective responsibility for decisions

Various forums operating under the APCs such as – the General Body of Shareholders, Board of Directors and various committees must assume collective responsibility for decisions. In practice this would mean that, while there may be difference of opinions and various options discussed in meetings, once a decision is made everybody accepts the decision and works towards its implementation. In general the discussions between the members of a group (such as the Board of Directors) would remain confidential and not shared with others. Specifically we need to keep the following in mind.

- The leadership / chairperson must create an atmosphere so that whenever a matter is discussed all views are aired freely.
- Differences of opinion are common and may be freely expressed.
- Once a decision is made it is accepted as the collective decision of the body and all members must cooperate fully in implementing the decision.

- Any decision may - “Go wrong”. For example, a selection committee may have a discussion about who is the best choice for an Accounts officer as follows :
 - a. A person “X” may have formal qualification but very little experience. Two members of the selection committee prefer this candidate.
 - b. A person “Y” may have no formal qualification but three years of experience in maintaining accounts. The third member of the selection committee may prefer this candidate.
 - c. The committee may finally offer the job to person “X”
 - d. After three months it is seen that, the performance of “X” is totally unsatisfactory - he has committed a lot of mistakes, the Accounts are not updated and there are several problems due to this.
 - e. At this point the committee may realise that their choice of “X” was a mistake and instead Y could have been offered the job.

Under these circumstances, collective responsibility would mean that the committee as a whole reviews the decision and accepts that a mistake has been made. **It also means that the member of the committee who had expressed a preference for “Y” as Accounts Manager does not go about complaining to various members that he warned the committee and they did not listen to him.**

Also, supposing there is a discussion on this mistake and its consequences in some other forum such as the AGM of the company or even with an external body like the investors it must be seen that the entire committee is responsible for the mistake.

8. Ensuring continuous learning and improvement

The value of any individual or institution can improve continuously if one learns and performs better through experience. Compare the following two situations -

- The company purchases a wooden cupboard for the price of Rs. 10,000/-. What would be the value of this cupboard after 15 years? As per the normal principles of accounting this asset continuously depreciates in value and after a period of about 10 years its book value is perhaps nil.
- The company hires someone as an Accountant for a salary of Rs. 10,000/- per month. What would be the likely salary for this person after three years of experience. If the Accountant is performing well his salary increases continuously and it is also possible that he is given a greater responsibility (may be as an Accounts Manager).

Learning Makes the Difference

Learning does not take place – “Automatically” but it requires special effort and analysis. Some possible methods could be –

- Analysis of performance – say sales
- Analysis of procedures and continuous improvement through documentation and review.
- Benchmarking – the learning based on a comparison with an organization performing the same or similar kind of task.

Benchmarking : A New Name for an Old Idea?

Once some young people approached Gandhiji and asked his advice about how to start a rural development activity. Gandhiji said that he had never worked in a rural area and thus would not be able to advice. But the young people persisted. Gandhiji said, “ I do not know what you should do. But I will tell you what I will do. If I were to work for dairy development in a village, I will look for the best dairy producer and document his/her practices from morning till evening. Then I will document the practices of an average dairy producer in the village. The gap between the two is my plan of work”. (From the Editorial of – “Honey Bee, Vol. 12, No. 3, Page – 1, 2001)

Benchmarking is the process of comparing our business processes and performance to other companies – usually those that are considered as the best in the field. Usually this involves the following steps.

- A specific subject may be selected for study which may be a problem area. Example, quality control.
- Identify other industries which have similar processes
- Identify organisations that are leaders in this area.
- Collect information about / visit these companies to identify leading practices
- Companies typically agree to exchange information beneficial to all parties in the benchmarking group and share the results within the group.
- Implement the new and improved business practices and monitor the results.

Types of Benchmarking

Benchmarking may be of various types such as the following :

- Processes (example) Purchase of equipment, hiring of staff, training of staff
- Product benchmarking

Consider the following example.

- An APC has a problem in hiring and retaining marketing staff. During a period of two years, four different persons have joined and left after short periods of employment.
- As an exercise in benchmarking they visit and study an APC which has very good marketing staff. They discover that the approach of this APC is to welcome students from Universities / Colleges which offer a degree or diploma in marketing and provide opportunities for some of these students to do short term assignments / projects with them. During this process the APC has an opportunity to make an assessment of the attitude of

the students and the students also have an opportunity to make an assessment about the APC, its style of functioning, areas of operation, job requirements etc. Hence, when some of these students are offered a job with the APC there is a better chance that they would stay on long time in the job and not drop out very soon.

- Based on this learning the APC decided that they would also offer opportunities for students to undertake short term assignments and projects with them.

9. Accountability

Accountability is the obligation and willingness to accept responsibility and account for one's actions. For a producer company, being accountable means, demonstrating regularly that it uses its resources wisely. For example, this would mean that –

- The basic information about the company, its activities and policies are readily available and accessible to all the members.
- This information is also available to potential new members as well as banking institutions and agencies who provide support to it.
- The APC must be willing and open to accept suggestions that can improve the performance or cut down costs.

10. Being Answerable to All Stakeholders

Who are the persons to whom we have to relate to / report or have a responsibility? Some of them are -

- Shareholders
- Investors such as Banks, who have provided loan or credit facility
- Stakeholders within the organization – employees, consultants
- Other companies with whom we have dealings – sub contractors, suppliers etc.

- Customers who purchase our products or services
- The general public / residents of the area where our activities are located – office, processing plant, godown etc.

In some of these cases the requirement is legal such as – a company has to report to shareholders as specified in the Companies Act, the company has responsibilities towards all employees as specified in the Act relating to the payment of minimum wages etc. However, here we will highlight what are good practices – these are not legal obligations.

Investors such as Banks, who have Provided Loan or Credit Facility

At all times it is a good practice to keep investors informed and in the loop about various developments. For example one may invite them to functions / meetings relating to the launch of a new product or to exhibitions where company products are displayed or sold.

Stakeholders within the Organization – Employees, Consultants

Employees and consultants must share the vision and values of the organization. They are the team who have the responsibility to carry out various activities and work towards meeting targets and deadlines. Often they are the public face of the company with which the customers come into contact. For example, if a company is dealing with ecofriendly food products it would be a good idea to educate the employees about the value of such products in various ways and also promote and incentivize the use of these products by them.

Other Companies with whom we have Dealings – Sub Contractors, Suppliers etc.

The company must have reasonable deadlines by which obligations should be met. For example, if a product has been purchased (such as stationery) or a service has been availed (such as the hiring of a

vehicle for an outstation trip) how soon will the payment be made after the bill is presented? A company may decide that wherever the payment involves a small amount or if it is even a major amount that is already approved the payment may be made immediately upon the presentation of a bill. In other cases the payment may be cleared after three working days. In case, of any questions or clarifications they must be raised as soon as possible.

Customers who Purchase our Products or Services

There must be specific mechanisms in place for handling of complaints and redressal of grievances. For example, -

- If a complaint is received in writing it must be acknowledged immediately.
- A reply must be sent within a reasonable time (say within three working days)
- If the complaint needs to be investigated or looked into in detail a reply must be sent immediately informing that the response will be sent within a period of one / two weeks.
- If there is a complaint about a product (such as – grain that is pest infected etc.) there must be a replacement of the product or refund of the money as per proper guidelines that are made public.

In this connection we can see in recent years that many organisations such as banks are now displaying clearly in their premises the normal time that is required for various operations such as – withdrawal of cash, purchase of a demand draft etc. several government departments have adopted – “Citizen’s Charter” which are also put up on the websites of departments.

The General Public / Residents of the area where our Activities are Located – Office, Processing Plant, Godown etc.

Any office / company located in an area is likely to create a certain amount of problems or disturbance to the surrounding residents.

This may be due to - various factors such as – noise, large number of visitors, parking of vehicles etc. One must make every effort to make sure that such disturbance is avoided or minimized. For example, -

- Parking of vehicles of visitors must be within the office premises and if it is outside it must cause minimum disturbance.
- If any repairs are to be carried out and if there is noise it must not disturb the neighbourhood.
- Disposal of waste and byproducts must be carried out responsibly so that the neighbourhood is not disturbed.

11. Balancing social and business objectives

Historically producer companies were formed through an Act that was meant to combine cooperative principles with the structure of companies. The Government has come up with schemes for supporting APCs such as the CGF (Credit Guarantee Fund) and MEG (Matching Equity Grant). These are benefits that are available specifically only to producer companies and not to any other category of company such as private or public companies. This is because of the expectation and understanding that producer companies are also serving social objectives. This can take various forms such as –

- Taking care of the interest of small and marginal farmers
- Taking care of the landless section among farmers
- Operating in an area that is backward and with poor infrastructure
- Having members who are from disadvantaged groups such as tribals.

For example, in terms of taking care of the interest of small and marginal farmers it may be reflected in the operations of a company in the following manner.

- The company plans to procure 100 tonnes of organic rice since it has identified a good market.
- This can be procured from six large farmers in the locality.

- However, there are also about 50 – 60 small and marginal farmers cultivating organic rice.
- In terms of a purely business motive and profit it may be good for the APC to manage the procurement only from the large farmers.
- However, the APC has a duty to procure produce from all its members and help marketing as much as possible.
- However, procuring produce from a large number of sources may also mean – increased cost of transport, additional effort to ensure uniform quality and more time to manage the operations.
- In the name of offering services to a large number of members the APC should not default on the deadline for delivery or in the quality of the product.
- Based on these considerations the APC may decide to make a procurement from two large farmers and about 20 small and marginal farmers to meet the target.

Chapter - 3

PUTTING IN PLACE GOOD PRACTICES

An understanding or comprehension of good practices is only a starting point of the journey. In order to translate them into practice and ensure that there is continuous review, feedback, learning and improvement specific institutional processes need to be put in place. Such an effort has to begin with the clear signal that it has the acceptance and blessings of the highest level of the organisation.

The Board of Directors should discuss corporate governance issues and create a corporate governance committee. A corporate governance improvement plan is to be put in place. Appropriate resources are to be committed by the Board of Directors to ensure corporate governance initiatives are achieved;

Putting in Place Good Practices

Policies and procedures should be formalised and distributed to relevant staff and also the shareholders and stakeholders. The Board of Directors should have in place a self-evaluation and training methods

Why do we Need Good Practices?

The answer to this may be at various levels, and we share some reflections on this matter particularly in the context of APCs

- Encouraging participation and ownership from various stakeholders
- Building robust / learning institutions
- Obtaining support and assistance for activities especially during the initial phase.

- It improves the company's performance and increases the sustainability of the company;
- A company having a good corporate governance policy is likely to have a higher firm valuation and its shares are likely to be valued better;
- A company having a good corporate governance policy is likely to have better access to external finance from banks and other financial institutions, including donors;
- A company having a good corporate governance policy is likely to be able to reduce the interest rates that it pays since it would be run more efficiently;
- A company having a good corporate governance policy is likely to have a reduced risk of corporate scandals and corruption actions.

In conclusion we can say that good practices should not be thought of as an after thought or something which is only in the nature of a dressing. On the contrary it must be recognised as an essential part of the functioning of the organisation which would reflect its core values.

Annexure - 1

EXERCISES AND GROUP ACTIVITIES

Note : We invite the readers to take up and discuss in groups various practical exercises that have been suggested in this chapter. These do not necessarily have a – “correct / write answer” and the purpose is to get each reader and team reflecting on what is meaningful and what works (or does not work) in their experience or context. The authors would be happy to have such experiences shared with them.

1. Lists some additional good practices - Where have you seen these practices
2. Can these good practices also cause problems?
3. Can you think of other rforms of diversities
4. Can you suggest specific ways in which an organization can help diverse persons to participate
5. Group exercise – Suggest a due process for making decisions on the following - (a) From amongst 500 shareholders 25 farmers have to be selected for an exposure visit sponsored by the District Agriculture Department. (b) The Department of Agricultural Engineering is willing to provide 50% subsidy to 10 farmers in the purchase of power tillers. Two different groups can work on a due process for each and exchange comments.
6. Group Exercise – Each group to identify one specific area where they are having a problem and they are trying to improve their performance. Describe the problem, identify agencies that they can study / visit to overcome their problem and how they would go about it. Present each case and discuss and improve.
7. Stakeholders – Each group / company to come up with a charter of what they can promise to the consumer / retailer to whom they supply agricultural produce. For example, it can deal with

matters such as – complaint about product infested with insects, products damaged during transport etc.

8. Visit some organisations in your area such as a few banks and public service institutions / government officers or even private agencies (such as companies, hospitals, clinics) and make notes on what they promise by way of performance for the customer or redressal of complaints / grievances.
9. Visit the website of four different institutions – two private agencies and two government departments to observe and note what they promise by way of charter for customer / citizens and procedures for handling complaints.

Annexure - 2

SUGGESTED READINGS & RESOURCES

1. Alagh Committee Report

Report of the High Powered Committee for Formation and Conversion of Cooperative Business into Companies (Department of Company Affairs, Ministry of Law, Justice & Company Affairs), Government of India, New Delhi), March 2000. (28 Pages)

This report - commonly known as the – “Alagh Committee Report” is the report which paved the way for the amendment to the Companies Act, 1956 by which Producer Companies were made possible.

2. Basic Legislation Relating to Producer Companies

- a) The basic legislation relating to producer companies forms part of the Companies Act, 1956 in which Part IX-A (Sections 581A to 581ZT) are about all aspects of producer companies. It can be accessed from the website of the MCA (Ministry of Corporate Affairs) through the following link http://www.mca.gov.in/Ministry/pdf/Companies_Act_1956_13jun2011.pdf (see pages 229 – 243)
- b) The revised and modified version of the Companies Act which was enacted in the year 2013 can also be accessed through the following link. <http://www.mca.gov.in/Ministry/pdf/CompaniesAct2013.pdf>
- c) The Government has declared its intention to come up with a separate legislation for producer companies. However, currently, para 465 of the Companies Act, 2013 states that while the Companies Act, 1956 stands repealed “provided that the provisions of Part IX A of the Companies Act, 1956 shall be applicable mutatis mutandis to a Producer Company in a

manner as if the Companies Act, 1956 has not been repealed until a special Act is enacted for Producer Companies”. However, it is not clear when a special Act will be enacted for producer companies. In the meanwhile there are also a large number of Rules that are being formulated and notified.

3. Urpathiyalar Companigal Sattam (Producer Company Act – in Tamil) by B. Poongkhulali, R. Abarna and K. Vijayalakshmi (Sempulam Sustainable Solutions Private Limited, Chennai) March 2015.
4. Resource Handbook for Establishing a Producer Company by Action for Social Advancement (ASA), Bhopal (ASA, Bhopal), March 2010.(54 pages.)
5. Urpathiyalar Companigal Sattam – Sila Kelvigal, Padhilgal (Producer Company Act - FAQ in Tamil) by B. Poongkhulai, R. Abarna and K. Vijayalakshmi (Sempulam Sustainable Solutions Private Limited, Chennai) March 2015.
6. Producer Company Act - FAQ by B. Poongkhulali, R. Abarna and K. Vijayalakshmi (Sempulam Sustainable Solutions Private Limited, Chennai) May 2015.