

## CASE 2

### DAKSHIN RASAYAN NIGAM LIMITED

Dakshin RASAYAN Nigam (DRN) is a large public sector undertaking based in Tamil Nadu set up for the manufacture of urea and other complex petrochemicals. It has five plants each of which is treated as cost centre. This case relates to the secretarial and legal department of the company. This department is situated at the corporate headquarters in Madras. As indicated in the organisation chart (Exhibit-1), the head of this department Mr. Sivaprakasam reports directly to the Managing Director. Under this structure, the department can play the role of an outside counsel, and given judgement uncoloured by departmental loyalties. The annual budget of the department was Rs. 30 lakhs for the year 1978-79, as compared to the Rs. 3 crores spent in the overall corporate overhead.

The function performed by this department can be broadly classified into three areas:

- a) **Share transfers:** Eleven out of the fifteen Assistants in the department do this function. Bulk of the work is documenting share transfer which is very routine task. Also, this section handles queries from shareholders which is of a non-routine nature.
- b) **Secretarial work:** This consists of the obligatory duties imposed by the Companies Act. The work involved is confidential in nature and cannot be delegated to outsiders. The three people employed in this section mostly handle duties such as arranging board meetings, recording resolutions etc.
- c) **Legal work:** The work of this section broadly relates to the legal aspects of corporate transaction, This section looks into the contracts entered into by the company and handles cases with regard to bad debts, it advises top management on the legal implications of the various amendments of different laws. Also by scrutinising contracts this department ensures that the interest of DRN are protected in every contract. Most of the work in this department is of a non-repetitive and specialised nature and is given to outside counsel.

#### Share Transfers

Share transfers are relatively routine work. it has been estimated that each share transfer, including preparation, verification and dispatch. takes about 30 minutes. During the peak period about 8000 share transfers per month are handled. However, due to the continuous losses suffered by the company during the past few years, the number of share transfers has dwindled to about 4000 transfers a month. The company, however, staffs on the average load basis and handles extra work through overtime, rather than hire temporary labour.

The budget for this section is based on the projected volume of share transfers during the next period. It is expected that as the performance of the company is projected to improve in 197980, the volume of share transfers will also increase, say about 15% for the year 1979-80 as compared to 1978-79. Also, a better performance will elicit lesser number of queries from shareholders who are now not so anxious about their investment in the company. Considering the above factors, it is planned to hire additional manpower to cope with the expected increase in work. It has to be clone in advance as it takes about six months before a person becomes proficient in his work relating to share transfer.

#### Secretarial Work

The volume of work done by this section is related to the provisions in the Companies Act spelling out the duties of a company secretary. The work done is fairly repetitive over the years but is highly confidential in

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nature. Also strict adherence to the letter of the law is needed. As such, all the work is done by the section itself without any aid from outside agencies.

The volume of work here is fairly stable over the years and the budget is prepared taking into consideration last year's figures and any projected increase in costs. Firm adherence to the provisions of Companies Act is the major concern of this section rather than controlling costs of such adherence.

### **Legal Department.**

The work done by this department consists of scrutiny of contracts entered into by DRN to ensure that the interest of DRN are fully protected. Also it advises top management of the legal implications of any changes in the law of the land. It also looks after problems relating to customs and excise duties.

The bulk of the work is given to outside counsels. This is so because each contract is unique in itself and it will be very expensive and difficult to develop the legal expertise within the company itself. Also, it might lead to under utilisation of the capacities of some legal specialists employed by the company. DRN selects the outside counsel and mostly pay their fees. DRN's own counsel, however, actively participates in the preparation of all the contracts. He frequently prepares the first draft or in lieu reviews the draft prepared by the outside counsel. He thus acquires a broad based knowledge of the legal problems in the company and also ensures consistent application of the company's policies. The major objective is to turn out 'defect free' contracts, as even a small defect can cost a large amount of money to the company.

### **Budgeting and Control**

The output of the secretarial and legal department is controlled through a budget. Early September every year, the budget committee, headed by Mr. Gopal, sends out a memorandum to every department to submit their budgets for the forthcoming year. The budget for the legal and secretarial department is the aggregate of the budgets of the three sections detailed above. The department head is answerable for large overruns, though a leeway of 5% over budget is automatically given. The management recognised that as work done by this department was largely qualitative, not much significance is attached to the budgeted costs and overruns.

Due to the high cost of training and the specialised nature of work, extreme care was taken in selecting a person for the department. Mr. Sivaprakasam also kept himself informed about the working of the department by occasionally going through the output of an assistant. The aim of the department was to produce 'no-defect' contracts and to expedite share transfers. It may be mentioned here that it is possible to get the share transfers done by the company registrars' office at 50% of the current costs, but in the interest of customer satisfaction, the company is willing to spend the extra 50%.

### **Budget Reports**

Mr. Gopal was thoroughly familiar with the above background information as he contemplated the budget reports given by the secretarial and legal department for January 1979. The budget summary for each of the three sections are given in Exhibit 2: Mr. Gopal was wondering what questions he should ask Mr. Sivaprakasam and how should he use the information available to correctly assess the performance of the department.

### **Questions**

1. How well do budgets help as a tool of cost control in the secretarial and legal department of DRN?
2. If you believe that budgets are not an effective tool of control what other method of control, would you recommend?

**EXHIBIT 1**

**Partial Organisational Chart of DRN**



| <b>Share Transfer</b>         | <b>Budget</b>   | <b>Actual</b>   | <b>Variance</b> |
|-------------------------------|-----------------|-----------------|-----------------|
| Salaries, Full-time           | 1,17,850        | 1,07,850        | 10,000          |
| Salaries, overtime            | 10,000          | 14,700          | (4,700)         |
| Allocated rent                | 2,500           | 2,500           | --              |
| Equipment depreciation        | 600             | 600             | --              |
| Office supplies               | 1,450           | 1,700           | (250)           |
| Electricity                   | 1,325           | 1,250           | 75              |
| Telephone                     | 250             | 7,479           | (25)            |
| Postage                       | 8,400           | 200             | 921             |
| Travel                        | 450             | 872             | 250             |
| Printed forms etc.            | 600             | 284             | (272)           |
| Miscellaneous                 | 250             |                 | (34)            |
| <b>Secretarial Department</b> |                 |                 |                 |
| Salaries                      | 29,700          | 33,700          | (4,000)         |
| Salaries, overtime            | --              | 2,000           | (2,000)         |
| Allocated rent                | 2,000           | 2,000           | --              |
| Furniture depreciation        | 650             | 650             | --              |
| Office supplies               | 1,200           | 1,144           | 56              |
| Electricity                   | 650             | 575             | 75              |
| Travel                        | 1,500           | 2,450           | (950)           |
| Miscellaneous                 | 600             | 950             | (350)           |
| <b>Legal Department</b>       |                 |                 |                 |
| Salaries                      | 2,500           | 2,500           | --              |
| Fees to outside counsel       | 67,500          | 1,08,400        | (40,900)        |
| Miscellaneous                 | <u>600</u>      | <u>350</u>      | <u>250</u>      |
|                               | <u>2,40,575</u> | <u>2,92,429</u> | <u>(51,854)</u> |