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RESTRUCTURING UTI : THE MISSING DIMENSION

by

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A B S T R A C T

According to press reports, the Unit Trust Of India(UTI), is to be restructured and split into two organisations. The restructuring has been considered necessary for achieving a 'level playing field' in the mutual fund industry.

There also has been a persistent demand to subject UTI to regulation and inspection by the now empowered Securities and Exchange Board of India (SEBI). The Government, reportedly, is of the opinion that, if the emerging mutual fund industry is to be meaningfully regulated, then UTI, also, will have to be subjected to SEBI regulation.

The need to subject UTI to regulation by SEBI is indisputable. However, the rationale for splitting UTI is unfathomable. It is irreconcilable with our current efforts to adopt a more market oriented economic regime. Fundamentally, in the new economic framework, the belief is that the attainment of a level playing field is achieved better by market forces than by legislative intervention. The proposed step, thus, runs counter to the efforts to create a more market oriented economic environment.

The proposed legislation, which would result in pruning down the size, and limit the scope, of operations of UTI, will deny UTI of its major competitive advantages - of both size and scope. At a time, when, under the current reform programme, **large** Foreign institutional investors are being actively wooed to participate in the Indian capital markets, pruning down the size of UTI will cripple it. The break up of UTI would only worsen the 'levelness' of the playing field, purportedly the primary objective behind the planned amendment to the UTI Act.

Importantly, the split would be detrimental to the interests of the large body of its investors, especially the small investors.

The unseemly controversy over whether UTI should be subject to SEBI regulation or not has camouflaged a more fundamental need- that of a need to carry out an internal restructuring of UTI. Its present structure is , prima facie, dysfunctional. It does not achieve a fit with its product-market strategy. Over the years, UTI does not seem to have refashioned its structure with the change(s) in its strategy. Its ambitious plans of growth are unlikely to fructify as planned, unless, it restructures itself.

Further, analysis of information available in the public domain reinforces the need for an internal restructuring in order to safeguard investor interests.

Restructuring Unit Trust of India: The Missing Dimension

According to press reports, the Unit Trust Of India(UTI), the largest mutual fund (UTI itself disputes its classification as a mutual fund) in the country, is to be split into two organisations with a view to segregate its term lending functions from its mutual fund activities.

The plan to restructure UTI has its roots in the belief that it is necessary to do so to ensure a 'level playing field' in the mutual fund industry. Further, there has been a persistent demand to subject UTI to regulation and inspection by the now empowered Securities and Exchange Board of India (SEBI).

The Government, reportedly, is of the opinion that, if the emerging mutual fund industry is to be meaningfully regulated, then UTI, also, will have to be subjected to SEBI regulation. The underlying rationale, presumably, is that it will be easy to regulate UTI once it is split up rather than in its present composite form.

While the need to subject UTI to SEBI regulation is indisputable (more about this later), the splitting up of UTI to achieve a more level playing field is rather ill conceived. In our opinion, the proposed plan of splitting up UTI would achieve something akin to throwing out the baby with the bath water.

The splitting up of UTI is irreconcilable with our current efforts to adopt a more market oriented economic regime. Fundamentally, in the new economic framework, the belief is that the attainment of a level playing field is achieved better by market forces than by legislative intervention. The proposed step, thus, runs counter to the efforts to create a more market oriented economic environment.

Additionally, legislation, even if essential, should be applicable uniformly. It can not and should not be restrictively imposed on UTI.

The proposed legislation, which would result in pruning down the size, and limit the scope, of operations of UTI, will deny UTI of its major competitive advantages - of both size and scope. At a time, when, under the current reform programme, **large** Foreign institutional investors are being actively wooed to participate in the Indian capital markets, pruning down the size of UTI will cripple it. The split would go against the interests of the large body of its investors, specifically the small investors. They, the small investors, are UTI's raison d'etre today.

The risk bearing capability of the small investor is relatively low. The appeal of an institution like UTI lies in its ability to facilitate the small investor to diversify his/her risk over a larger portfolio of investments. As is well known the risk of a security can be decomposed into diversifiable(unsystematic) and non diversifiable(systematic) risk. The former stems from company specific factors while the latter is the market risk.

An investor by investing in a portfolio of securities would be able to minimise the diversifiable risk. However, this would require investments of an order significantly higher than what a small investor can afford.

Additionally, efficient diversification would require constant monitoring of company specific information (like a strike, a lock out or recessionary conditions in the specific product market etc.) and importantly, acting upon the same.

The small investor would, if at all, find it rather difficult to do the same. He/she is unlikely to possess the required expertise and/ or command the resources required to carry out the same efficiently.

On the other hand, a mutual fund, by virtue of its acting on behalf of a large number of such investors, would be able to command the necessary resources and expertise and hence would be in a better position to do it effectively.

Therefore, a mutual fund like UTI, provides the small investor with an opportunity to generate better returns on their small investments. It achieves this because it operates on behalf of a large number of them. Size is crucial in this regard. The size of UTI enables it to

- insulate itself (and hence the small investor) from the short term fluctuations/vagaries of the capital markets.

- have a long term focus (and hence achieve a better mix in its portfolio of both short term and long term investments), and

  achieve a low cost position (and therefore provide better returns to the investor) by amortizing its costs over a large volume of operations and over a longer time period.

The Split

The splitting up of UTI would seriously affect its appeal to the small investor and impair its performance. Today, its very size inspires confidence amongst the small investors and is its major competitive advantage.

Secondly, the splitting up of UTI into two organisations according to its major 'operations' viz. that of a mutual fund and that of a term lending institution would presumably imply that, in future, one of the new organisations, UTI Mutual Fund, is likely to be debarred from participating in term lending. This would reduce the scope of its operations and it would deny the small investors of UTI, a significant avenue of investment.

If the investor in ICICI/IDBI has access to the term lending market, there is no earthly reason why the UTI investor should be denied this opportunity. The investor in ICICI/IDBI has access to the rest of the spectra of the financial markets. Apart from term lending, ICICI/IDBI do invest in equity and debenture and other instruments of the capital market.

If the UTI Mutual Fund is not to be debarred from operating in the term lending market, then one fails to appreciate the rationale for the split. The perception that the two operations viz. term lending and mutual fund are different is rather flawed. The expertise required may vary. But UTI does possess the expertise today. Perhaps they can be harnessed better. The solution to it perhaps lies elsewhere and not in splitting it up.

At the core, the term lending and mutual fund operations, essentially involve the same activities since both involve:

- mobilisation of funds from the public (the new UTI Term Lending is also expected to raise funds from the public due to the non availability of cheap Governmental funds)

- investment of funds in different instruments of the financial markets.

The rationale behind the creation of two organisations from an existing single organisation, which replicate the same activities, is unfathomable. Even if replication is desirable from the point of view of infusing greater competition etc., the solution lies in setting up another institution (and /or permitting others to expand the scope of their operations) rather than in splitting (and hence crippling) a successful operation like UTI.

The only rationale, if at all, for the split could lie in the general contention that by virtue of being a hybrid organisation - part financial institution and part mutual fund - UTI could take advantage of its unique position and indulge in trading on inside information.

Insider Trading

The trading on inside information is a matter of real concern from the point of view of creating a healthy capital market. This needs to be prevented. However, in order to achieve this objective, one need not split the organisation. A tightening, and strict implementation, of the law relating to insider trading would achieve this objective.

It would be naive to believe that the scope for exploiting access to inside information is the exclusive privilege of UTI alone. The 'development' financial institutions like ICICI, IDBI (who also own large chunks of equity in the private sector companies); insurance companies like GIC and LIC (who are big players in the capital markets); commercial banks like the State Bank, the Canara Bank and the Indian Bank (all of whom have significant presence in the mutual fund industry through various subsidiaries) also have access to insider information.

Similarly, the top managements of private mutual funds could very well have access to insider information, especially in those companies which constitute a part of their industrial group.

The breaking up of UTI would hardly eliminate,(not even reduce in meaningful terms), the menace of insider trading. The break up of UTI will not only not solve the issue of insider trading, instead, it would only worsen the 'levelness' of the playing field, purportedly the primary objective behind the planned amendment to the UTI Act.

SEBI Regulation

The objectives of the government are better achieved by simply subjecting UTI to regulation and inspection by SEBI. The contention of its chairman, Dr.Dave, that UTI is an ' animal which is neither a bank, nor a mutual fund, nor an institution in totality' and 'it therefore has to be treated differently' (Times of India,1993) is rather narrow. Perhaps, it does not strictly fall within the existing definition of a mutual fund, as it is defined today, for it to be automatically subject to regulation by SEBI. Nevertheless in substance, it plays, among its various roles, the role of a mutual fund and importantly exercises a strong influence on the performance/ behaviour of the capital markets.

Since SEBI has been explicitly set up and empowered to regulate the capital market, and, because UTI is an active and a major player in the capital market, it has to be necessarily subject to regulation by SEBI. For regulatory purposes, it is immaterial what kind of an 'animal' UTI is. **From the point of view of public interest, substance is far more important than form.**

The need to regulate UTI is all the more necessary since its internal regulatory system is not adequate. The statutory auditors have stated that the internal control systems and procedures of UTI suffer from inadequacies (UTI Annual Report, 1991-92 a). This is crucial from the point of safeguarding investor interest.

The statutory auditors highlight the areas where they have found the systems to be inadequate. These include the internal audit system of UTI, the system of physical verification of investments and their reconciliation with book records, the control over processing of Unit applications, maintenance of records and servicing of unit holders by the Registrars etc. Again these are not peculiar to the year 1991-92. Some of these observations have been made over the years by the auditors. Prima facie, they stem from the phenomenal growth UTI has experienced over the years, especially during the last decade.

Ideally, UTI should have a sound self regulatory and inspection system. However, the need to subject it to SEBI regulation does not stem from the poor quality of its internal self regulatory systems alone. The absence of a sound internal control system only reinforces the need for its regulation and inspection by an external body like SEBI, which has been given the mandate for safeguarding investor interests.

The Missing Dimension

The unseemly controversy over whether UTI should be subject to SEBI regulation or not has camouflaged a more fundamental need- viz., that of a need to carry out an internal restructuring of UTI. Publicly available information suggest that an internal restructuring is sorely needed from the point of view of safeguarding investor interest.

This need is further reinforced by the report that UTI is seeking to convert itself into a ' competitive, diversified financial conglomerate over the next five to seven years' (The Economic Times, 1993). As per the report, it seeks to emerge as the largest, in terms of investible resources, non banking financial sector institution in India.

The recently finalised corporate plan of UTI reportedly has identified the need to reorient methods of working at all its offices. Its major thrust seems to be on improving its systems. That there is a need to reorient its systems with a view to compete effectively in the emerging scenario is indisputable. Especially when over the years, as discussed earlier, the statutory auditors have repeatedly found the internal systems of UTI falling short in a number of areas.

Systemic improvements alone would not facilitate UTI to achieve its ambitious growth plans. It needs to go beyond. It needs to review and, if necessary (as is likely to be the case), redesign the entire organisation. Systems constitute only one of the components that go into the design of an organisation.

The design of an organisation comprises the structure, the internal systems, the rewards, and the measurement practices intended to direct the behaviour of its members towards the organisation's goals.

The design should reflect the organisation's situation - for example, its age, its size, the degree of competition it experiences in its operating environment etc. None of these are normally stable. Less so in the case of a growing organisation like UTI.

Organisation designs, unless reoriented to reflect the changing (changed) situation, tend to become dysfunctional and affect the organisation's performance.

Need for Change in Organisation Design

UTI needs to comprehensively review its organisation design. The phenomenal growth it has experienced in the past few years alone renders it necessary to review its design. Additionally, it is now seeking further growth in its traditional lines of business viz., of mutual funds; planning to diversify into areas of stock broking and investment banking; and its operating environment(s) is (are) becoming more dynamic and competitive.

Apart from the beneficial impact of a redesign on its overall performance, a review and redesign is called for from the point of view of protecting the interests of its varied investor population. Its present design does not do that.

Information available in the public domain restricts the comment here largely to UTI's organisation structure and systems. One can make inferences on their functionality from the information one can cull out from the published Annual Report. It is not feasible to discuss the issues related to its reward and measurement systems as they are not available in the public domain. Even with respect to its organisation structure and systems one cannot capture the entire complexity and the attendant nuances from the publicly available information.

However, the fundamental characteristics are identifiable and this is sufficient for substantiating the need to carry out an internal restructuring of UTI.

The Role of Organisation Structure

Fundamentally, the efficacy of an organisation structure is determined by the fit the structur (and attendant systems) achieves with its product market strategy. The choice of structural forms has been found to make an economic difference. All structural forms are not equally effective for implementing a given strategy. Further, it has also been generally found that structural choice follows from the organisation's strategic choice.

Broadly, the structure can be defined as the segmentation of organisational work into roles such as finance, marketing, and so on; the recombining of roles into departments or divisions around functions, products, regions or markets; and the distribution of power across this role structure.

There are several structural forms. These include the centralised functional organisation, the decentralised multi divisional form, and the matrix form. The locus of power in a centralised organisation is usually concentrated at the top of the organisation. On the other hand in a decentralised set up, the power and decision making authority are found at lower levels in the organisation.

" The functional organisation is usually more centralised, and its departments are specialised and arranged by function.... The multi divisional organisation is generally more decentralised than the functional organisation on the basis of product, market, or region.... Usually all the resources necessary.... are put under the control of a particular division. The division manager, therefore, is given considerable authority and responsibility.... The matrix organisation.... reflects both a function and a product orientation." (Galbraith and Nathanson,1978).

Evolution of Structure

Typically, the structure of an organisation follows the growth strategy of the organisation. It has been found to evolve sequentially, in tune with the evolution of the organisation. Most organisations commence their operations with a functional structure.

In the initial phase most businesses operate in a single industry with a single product and from a single location. The principal strategy often pursued is that of achieving volume expansion. A functional structure is ideally suited for such organisations since it enables the managements to harness the functional expertise efficiently by grouping similar activities under a manager.

In the next phase they often pursue a geographic expansion strategy which require creation of multiple field units in the same function and industry but in different locations. Organisations create geographic units (like UTI's zonal offices), within the same broad functional structure, primarily, with a view to achieving cost savings.

The adoption of multi divisional structure is linked to the pursuit of a diversification strategy by organisations. Organisations move into new industries/ product markets(could be related or unrelated to its original/ earlier business) with a view to either :

- leverage their resources better or
- achieve a better growth (especially when the original primary product markets decline or do not offer opportunities for sustained growth) or
- both.

It then becomes a multi product(and may be multi location)/ multi business organisation.It would, now, be operating in different product market environments, and its strategies would correspondingly vary. The organisation structure needs to be suitably redesigned to enable it to cope successfully with the demands of the different environments.

The multi divisional structure has been found to be well suited for the organisation to manage the diversity brought about by its diversification strategy. Such a structure enables the organisation to group the activities of the separate divisions('businesses') in a manner which facilitate it to identify the demands of the different product market environments and hence respond better to them. It permits quicker response to individual market demands by reducing the need for extensive communication and information processing.

The multi divisional structure facilitates each business to have its own functional resources (though it would often share some functional resources with others) and thereby motivate the managers of each business to work towards their goals. The principal argument is that it unleashes the entrepreneurial zeal among the divisional personnel. It also facilitates capital/resource allocation process by enabling relatively clear cut appraisals of divisional performance and alternative investment proposals.

The Organisation Structure of UTI

Based on the information provided in the Annual Report 1991-92, it can be inferred that, presently, UTI has, essentially, a functional structure. (See figure 1).

Figure 1

Chairman

Executive Trustee

Chief General Manager (Dept. Of Investments & International Finance)

Chief General Manager (Dept. Of Operations & Systems)

Chief General Manager (Dept. Of Business Development & Marketing)

Chief Genera Manager (Dept. Of Market Operations

General Manager (Dept.of Personnel & Administration)

General Manager (Dept.of Accounts & Resources Management)

General Manager (Dept.of Investments)

General Manager (Dept.of Research & Planning & Policy Plannin

General Manager (Western Zonal Office)

General Manager (~~Western~~ Zonal Office)

General Manager (Western Zonal Office)

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(based on UTI Annual report, 1991-92, p 5)

As can be seen, its structure is organised along functional lines like Investments, Marketing, Operations, Research, Personnel and Administration, and Finance and Accounts. Additionally, the geographic operations are structured along regional lines.

UTI's organisation structure does not seem to have evolved with the growth, both in volumes and in diversity, of its business. One could contend that UTI, as of date, operates in a single business (essentially mutual fund) and in a single industry and therefore, the functional structure in place today is the one ideally suited for its efficient performance. Perhaps.

However, a careful review of UTI's strategy suggests otherwise. With over 40 schemes and with over Rs. 31,000 crores in investible funds, UTI operates in a number of product-market segments.

Apart from offering standard mutual fund products like the Unit Scheme 1964, MasterShare etc., its strategy has been to segment the investor population into various market segments and launch different products to appeal to the specific needs of each of the segments. For example, one could broadly group some of its products under the following categories:

Savings products : These are directed towards the needs of the investors to 'save' for future contingencies like a child's education/ marriage etc. The famous amongst them is the Children's Gift Growth Fund.

Regular Income products : These cater to the needs of the investor segment who are seeking regular incomes and are not primarily seeking growth. Its Monthly Income Scheme - being a case in point.

Growth products : These cater to the investor segment which primarily which primarily seek growth. Its UGS 5000, UGS 2000 schemes being the examples in this case.

Income- Growth Mix products : These are addressed to the market segment which while seeking regular income is looking forward to some growth as well (or vice versa). UTI has a number of schemes under this class. Eg., Growing Income Unit scheme,Monthly Income Unit Scheme with Extra Bonus plus Growth. Monthly Income Unit Scheme with Extra Growth etc.

The above classification is only illustrative. One could additionally classify its other products like the Master Equity plan (into Tax shelter products), the Unit Linked Insurance Plan (into Insurance products), Housing Unit Scheme(as Housing products) etc.

Alternately one could classify its products based on duration of the products like open ended schemes and close ended schemes etc. UTI also adopts such a classification.The utility of such a classification is rather suspect, since it basically does not facilitate identifying the critical needs of the customers and hence does not easily facilitate fashioning appropriate responses to their needs.

The above illustrative classification has been done only to highlight the fact that UTI has been alive in the past (and its new corporate plan suggests that it continues to be in the present as well), to the opportunities available in its operating environment and to the growing competition in the market place. Its strategy, to increase its market share, has been redefined constantly. It has launched a variety of products tailored to cater to the needs of the different segments of the market.

The key issue is whether the strategy is being effectively implemented, rather, whether it is feasible to do so, given its present structure. Prima facie, no.

Strategy - Structure Fit

UTI's its present structure is functionally oriented and not product oriented. A functional structure is inconsistent with its size and the dynamic and volatile nature of its operating environment. A product oriented structure would enable it to respond faster to the volatile changes in its market environment. Research studies have shown that organisations operating in more complex environments(UTI's present and emerging environments are far more complex than it was in its earlier days) need higher degrees of decentralisation; those diversified in many markets (like UTI) need divisionalised (typically product market based) instead of functional structures.(Mintzberg, 1988).

Its present functional structure is dysfunctional in other ways as well. It would not facilitate identifying with relative ease the factors affecting its performance and pin pointing the responsibility for the same.

For example, the top management of UTI would find it very difficult to pin point the responsibility for the disastrous performance of its MasterGain scheme. Was the poor performance due to a poor choice of securities for investment in the MasterGain portfolio by the Investment department or was it due to delays in execution by the Market Operations department in a highly volatile market or was it both?

Under its present structure, each of the departments would primarily seek to maximise their performance (of mobilising funds or generating returns or reducing cost of operations) individually rather than maximising the overall performance. Further, a global maximisation need not imply maximisation of performance under each of the specific products/ product groups. Global maximisation may, if at all, be achieved, but it does not follow therefrom that individual product performances are being maximised.

The Market Operations department, for example, could choose to bunch the execution of the transactions required by the Investments department with a view to achieving efficiency in its operations (and/or reducing costs). In the process it could affect the returns generated(timing is critical in the businesses UTI is in).

The bunching of transactions for execution (while maximising the performance of the Market Operation department) could result in UTI realising lower prices on its sales, or paying higher prices on its purchases, affecting its overall performance.

Apart from the impact of the same on its overall performance, such an act could affect the performance of its various products differently. Maximisation of individual product performance is crucial from the point of view of investor interests, especially the small investor.

The inability of UTI (caused by its structure and attendant systems) to pin point the inefficiencies in the process of managing its multiple schemes(products) with specific products/ schemes could penalise a set of investors.

Take, for example, the information given in the notes forming part of its accounts for the year ended 30th June 1992.

'' .. In respect of investments held by the Calcutta Office, discrepancies were observed on verification in the earlier years....the discrepancies .... can only be resolved on completion of reconciliation work in its entirety. The discrepancies finally determined **.....will be adjusted to the account of Unit Scheme 1964, as decided by the Board of Trustees (emphasis added)"** (UTI Annual Report, 1991-92 b).

Unless the investments, in the first instance, were made under the Unit Scheme 64 account, there is no reason, if at all, for charging it as routine costs of managing the scheme to the investors in the Unit Scheme 1964.

Further, if the scheme under which the investments were originally made is indeterminable, as is likely to be case, there is no justification for loading the entire loss due on this account **exclusively** on the investors of Unit Scheme 64.

If the above loss it not to be exclusively loaded on the investors under the Unit 1964 scheme, the top management would have to follow some allocation principle, which, once again, may penalise a set of investors over the other. This would arise because its existing structure does hot facilitate it to identify unambiguously its product wise performance.

It is not our contention that a need to adopt an allocation principle would not arise under a more product oriented structure. Nor is it being contended that the top management should be denied the right to arrive at an allocation principle. It should have the prerogative to formulate the allocation principle. Otherwise, it would be impossible to manage.

What is being argued is that the rationale for any allocation principle adopted should be equitable to the investors of UTI in its various products(schemes).

The top management of UTI needs to appreciate the fact that, apart from systemic inefficiencies, its current functional structure does not facilitate determination of an equitable allocation principle. By refashioning its structure (and attendant systems) it could not only improve its performance but also could achieve greater transparency and equity.

The above is not an isolated issue.

In order to deliver its product promise on a poorly performing scheme, the top management of UTI, could be transferring the superior returns generated under one scheme to another. This would lead to, one set of investors under one scheme, subsidising another set of investors under some other scheme, for the poor performance of that other scheme.

For example, UTI follows a system of pool accounting. " In respect of MIS (Pool) and GIUS (Pool), 5 % of the net surplus in Revenue Appropriation Account before **allocation** (emphasis added) to the individual series is transferred to ' Income Distribution/Maturity Premium Equalisation Reserve' and ' the net surplus after making appropriation towards Income Distribution/ Maturity Premium Equalisation Reserve, is **allocated** (emphasis added) to each series in operation at the year end under the respective schemes in proportion to the total of unit capital as the year end and General Reserve as the beginning of the year. In respect of series terminated during the year, the **allocation** (emphasis added) is done on net surplus as estimated by the Board of Trustees." (UTI Annual Report, 1991-92 c).

This, once again, raises the issues of equity and protection of investor interests. The adoption of a pooled system of accounting can be linked to its functional structure. Such a pooling is efficient when viewed purely from the point of view of the Accounts and Resources Management function. But it need not be so when one considers the interests of the investors in its various schemes.

The fact is that the investors under the various schemes, say of MIS (Monthly Income Scheme), have invested in the respective specific schemes and not in a Pool. The MIS Pool, at the end of the financial year 1992, comprised six schemes with total unit capital in excess of Rs.1,350 crores. The promise held out to them,implicitly, is that they would share the risk with the investors under that scheme and not across schemes.

The practice of pooling is contrary to this promise. For example, investments in shares before the 1991 boom in the stock markets from the funds mobilised prior to that, would have been made, prima facie, at much lower prices than the investments in shares from the funds mobilised and invested during the boom period.

The subsequent crash of the stock markets would have affected the latter set of investors more than the earlier set. The advantage of early investment should accrue only to the set of early investors.

UTI's structure and systems should enable it to capture this phenomenon. However, under a system of pooling the impact of the crash would have been distributed over all the investors under the various schemes included in the pool. This is patently inequitable.

The pooling of the funds is a practice typically employed when managing an open ended scheme like the Unit Scheme 1964 and may be suitable to such a scheme. This, however, is inequitable when employed for schemes like the MIS schemes. These are close ended schemes indicating thereby that time periods are of crucial importance.

Secondly, the product promises made under the various schemes included in the pool could vary. In fact, they did vary. The MIS Pool at one point in time comprised the following categories of promises: schemes which promised only a regular monthly income; schemes which promised growth along with regular monthly income; and schemes which promised, in addition to regular monthly income and growth, an extra bonus. As is obvious, the promises held out were different and the practice of pooling in such a situation could lead to one set of investors being disadvantaged.

The issue of equity is worsened by the practice of allocation of income generated in the pool based on unit capital of various schemes included in the pool.

Such a principle would favour the investors who belong to a scheme with a large capital base than the those who are part of a scheme which has a smaller capital base regardless of the actual returns generated on their specific funds.

Once again, the adoption of such a practice is traceable to its structure. The Accounting and Resources Management function would find it(cost) efficient to adopt such a practice. The implications of such a practice on UTI as a whole and to the promises it has made to the investors under its various schemes has not been taken cognisance of, and, if taken, ignored as it helps achieving optimum utilisation of resources at the functional level.

Thus, the existing structure and systems of UTI impose a number of limitations on its functioning. It continues to hold on to a functional structure which would have been efficacious when its was essentially offering only its Unit Scheme 1964. It does not seem to have refashioned its structure with the change(s) in its strategy. The statutory auditors of UTI have noted that the internal control systems and procedures (which are closely linked to the structure of the organisation) of UTI currently suffer from a major inadequacy in the form of lack of adequate separation of the back up function from market operations (UTI Annual Report, 1991-92 d).

The limitations need to be rectified. **In addition to improving the systems, the top management of UTI needs to restructure its internal organisation.**

The principal focus here has been on the interests of the large body of its investors. However, the need for review (and restructuring) also arises from the impact a dysfunctional structure would have on its performance. The discussion, here, has been limited due to lack of availability of relevant information.

For example, the motivational impact of a dysfunctional structure on UTI's managers has not been dealt with. However, a review would, most likely, reveal that the top management finds its difficult to reward superior performances (or punish poor performances) due to difficulties in measuring performances under its present functional structure.

UTI's ambitious plans of growth are unlikely to fructify as planned, unless, in addition to carrying out systemic upgradation, it restructures itself.

Prima facie, it needs to adopt a more product oriented organisation structure. Perhaps the next layer (or lower layers) of UTI's structure is (are) product oriented. This, however, is not clear from publicly available information. Even if it does have a product focus in the lower layers, it is important to achieve a greater product focus at the top. That it does not have such a focus is obvious from the top management structure reported in its own Annual Report.

Notes:

1. Galbraith, J.R., & Nathanson, D.A., (1978) ' Strategy Implementation: The Role of Structure and Process', West Publishing Co, pp 6

2. Mintzberg, H., (1988) ' The Structuring of Organisations' in Quinn,J.B., Mintzberg,H., and James,R.M., ' The Strategy Process: Concepts, Contexts & Cases', Prentice Hall, pp 277

3. The Times of India (1993), May,31 st, pp 8

4. The Economic Times (1993), June, 6th, pp 1

5. UTI Annual Report, (1991-92 a), pp A-4

6. UTI Annual Report, (1991-92 b), Note 3, Schedule L, pp A-65

7. UTI Annual Report, (1991-92 c), pp A-9

8. UTI Annual Report, (1991-92 d), pp A-4