Chapter IV

BOARD OF DIRECTORS: COMPOSITION, SELECTION
AND TENURE

The public sector enterprise system is a subsystem of the overall government. The government assumes the role of promoter, entrepreneur, investor and owner of the enterprise, while the management that is wholly appointed by the government is entrusted with the responsibility of running the operations of the enterprise. This has resulted in the government exercising the prerogative of selection of board level executives in the enterprises.

The public sector enterprises in India from inception till the 1970s were dependent on deputationists from the different cadres of the civil service. This occurred on a large scale which in a way marred the building of professionalisation in public sector enterprise management. The experiment of the creation of the Industrial Management Pool (IMP) in 1957, which selected a group of 130 officers (only once in 1959), suffered a setback. The appointments to top management posts in the public sector prior to 1957, were made by the concerned administrative ministries. In 1965, a policy reform effected in the selection procedure led to the setting up of a Screening Committee of Secretaries. In 1970, an Empanelment Board was constituted, while a major change in the policy for top management was made by the government in 1974. This led to serious thinking on the part of the government towards revitalising the policy and process of recruitment of top management in the public sector.

The Public Enterprises Selection Board (PESB) was constituted on 30 August, 1974 with a chairman and four members. Its composition, selection,
tenure and functions have been stipulated by the resolution of the Ministry of Finance (Annexure I). In the selection of the chief executives of the enterprises, the secretary of the concerned administrative ministry of the enterprise is associated. While the chief executives of the concerned enterprises are present in the selection of the functional directors of those enterprises.

In 1974, the government had specifically exempted certain enterprises from coming within the purview of the PESB. These included (i) Steel Authority of India Limited (ii) Food Corporation of India and (iii) Rural Electrification Corporation. In 1977, these enterprises were brought within the ambit of PESB and purely banking and financial institutions have been excluded from coming within the fold of PESB.¹

In 1987, the PESB was moved from the Ministry of Finance to the Department of Personnel and Training. This led to a comprehensive review of the PESB and the policy relating to its functions, membership and methods of selection. The board underwent certain changes as a consequence of this review (The resolution providing for revision is in Annexure II).

The initiative for the selection process of a Chairman and Managing director (CMD) or a functional director was earlier vested with the concerned administrative ministry. The criteria kept in mind for the selection of board members include a) performance of the person b) confidential record and c) being a professional in a concerned area. Earlier the practice has been that the requisition for filling the vacant positions would come from the administrative ministry to the PESB. It was the responsibility of the PESB then to invite applications for the vacant positions and after interviewing the applicants, the names were sent to the Appointments Committee of Cabinet (ACC), which

¹ At present also there are six enterprises which do not approach the PESB but the appointments of chief executives of which are made by the Appointments Committee of Cabinet. They include a) Air India b) Indian Airlines c) Food Corporation of India d) Rural Electrification Corporation e) India Trade Promotion Organisation and f) Power Finance Corporation. But the appointments of functional directors of these enterprises is made by the PESB.
would take the final decision. The ACC is chaired by the Prime Minister and has as its members, the Home Minister and the Minister of the concerned department/ministry (under which the PSU falls).

The six month lead time the administrative ministry was expected to give for the selection process in many cases has not been strictly followed. This at times led to situations wherein requisition was received by the PESB just before the retirement or after the superannuation of the board member of the concerned enterprise.² These irregularities had resulted in the PESB now taking the initiative of circulating the vacancies in the enterprises at the board level in advance. The vacancies in the public sector enterprises are publicised in leading newspapers, journals like Kaleidoscope (the journal of the SCOPE), the PESB notice board, etc. The process of interview and selection is completed by the PESB generally within a period of two to three months from the circulation of the vacancy. The panel of names is made available simultaneously to the Central Vigilance Commission as well as the concerned administrative ministry, generally three months before the vacancy arises in the concerned enterprise. In most of the cases, the PESB recommends a panel of two names so that the concerned administrative ministry has a choice in the selection of board members. In case of rejection only, an interview is held again for the post.

The efficacy of the PESB as a body entrusted with the selection of top management has become a debatable issue. The once mighty PESB is considered languishing and neglected, especially the board itself remaining headless for long periods of time as evident from Annexure III. The PESB had functioned without a chairman and two members for nearly two years. During 1994, the board functioned with just one member who conducted 167 meetings.

² In the National Aluminium Company Limited (NALCO) the position of CMD had fallen vacant in June 1993. The request for filling the position came from the ministry to the PESB in June 1995.
and made recommendations for 49 chief executives and 93 full-time functional
directors and part-time chairman.3

The composition of the PESB underwent changes in 1987 with the
number of members being reduced from four to three. Though one of the
members is to be a distinguished behavioural scientist, the board is devoid of
experts in this area. In the view of former Chairman and Managing Director of
ONGC, “The PESB has lost much of its importance over the years. It is
constituted now totally of civil servants. There was a time when the chiefs of
public sector enterprises were on the board. But now the strength has been
diluted.”4

The methods adopted by the PESB in making recommendations and
spotting suitable persons have also become questionable issues. The Managing
Director of a Steel Plant of the Steel Authority of India Limited comments, “One
of the criteria considered by the PESB in making appointments at the board level
is that the person should be preferably 45 years of age and in no case should it
be more than 56 years. But in practice somebody who has put in more number
of years in a public sector enterprise but at the same time has only a few years
to go for retirement, almost at the fag end of the career is chosen.”5

The government of late is said to have been showing some indifference
towards the board by overruling some of its recommendations. In 1996,
selections made by the PESB were overruled more than fifteen times.6

3 In 1995, the second member had been appointed and the new chairman assumed office on 3 January,
1996.
4 These views were expressed in an interview given to the researcher on 20 September, 1995, in New
Delhi. The composition of the PESB at its inception had two chief executives, one from the public sector
and the other from the private sector. At present, PESB besides the chairman, who is an IAS Officer,
has three members. Of these three members, two belong to the IAS, while the third member is a former
CEO of Hindustan Zinc Limited.
5 These views emanated from a discussion with the researcher on 6 October, 1996, in New Delhi.
6 In an interview given to the researcher on 25 March, 1997, the Chairman (PESB) refuted this and
expressed that nearly 90-95 per cent of the PESB’s recommendations are accepted by the government.
According to him, the corporation politics of the public sector at times stalls the process.
Due to the unsatisfactory performance functioning of the PESB, efforts are being made to revitalise and strengthen it. A public interest litigation has been filed by the former Coal India chairman urging the striking down of appointments made by the government without the PESB clearance and necessary steps to be taken to strengthen the PESB.7

The PESB in recent times has started assuming a 'proactive' role in minimising delays in the selection of top managerial personnel. More often the delays are said to be occurring in the ministries with the political executive disagreeing on the selections made by the PESB. Hence to lessen this, the government has made it mandatory for the ministries and departments to seek the approval of ACC within 60 days for appointing CMDs and directors in PSUs. In case of a lapse on their part, the PESB can directly approach the ACC to seek approval.

The Disinvestment Commission in its report made a plea for acceptance of the PESB's recommendations as a rule without having to go to the Appointments Committee of the Cabinet.8 Because of the inordinate delay in making board level appointments which militate against the efficient management and functioning of the public sector enterprises, modified guidelines have been issued by the government in June 1997 (Annexure IV). These guidelines for filling the posts of chief executives and functional directors assign an important role to the PESB.

A status report of PESB made in the wake of modified recruitment guidelines has indicated that about 39 top PSU posts lie vacant even though more than three months have elapsed since the final recommendations have

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7 When the case came in the Delhi High Court on January 19, 1998, the Union Government defended its action. It stated in its affidavit that "because of special circumstances, it is necessary to place a member of an organised service in PSU or where the nature of the enterprise is in poor health and it will be difficult to attract good professional managers on tenure basis from outside. (Pioneer 20 January, 1998)

been made by the PESB. In some cases, almost three years have elapsed since the recommendations were made to the administrative ministry.

The Disinvestment Commission favoured strengthening of the PESB by making it broad based with induction of professionals and management experts. It said that the recommendations of the PESB should be accepted by the concerned ministry without having to go to the ACC.9

The Confederation of Indian Industry (CII) preferred conferring a status similar to that of the UPSC for the selection of CEOs and Directors of PSUs. The government, it felt, should accept the PESB’s recommendations and any deviations should be tabled in the parliament.10

An analysis of the boards of directors of the four enterprises selected for study brings out varying features of the board management.

**Bharat Heavy Electricals Limited**

The power equipment industry owes its origin in India to the early 1950s.11 The Heavy Electricals (India) Ltd. had been set up at Bhopal in 1956 entrusted with the manufacture of power plant equipment. The Government of India, in 1959, having decided to set up additional manufacturing plants for manufacture of power generating equipment, efforts were initiated to set up plants at Hardwar, Hyderabad and Tiruchi. In November 1964, a new company Bharat Heavy Electricals (BHEL) was formed to take over the management and control of the plants at Hardwar, Hyderabad and Tiruchi. In 1974, the Bhopal unit was merged with BHEL. The main reason for this was that since the Bhopal plant was under production, the other plants were under construction and needed a different approach to managerial problems.

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11 In February, 1947, the Advisory Planning Board recommended that an indigenous base for electrical machinery be established in India.
BHEL has a three-tier organisational structure. It comprises corporate level, business sector level and divisional level. At the corporate level is the board of directors headed by the chairman and managing director. The business sector has a number of divisions each entrusted with handling group of products. Each of these products has been organised into a separate self-contained unit on the principle of ‘profit centre’. Each profit centre is under the change of a product manager. All these divisions are headed by executive directors/group general managers. These divisions also have functional groups in the areas of personnel, engineering, materials and finance.

The board of directors of BHEL from its inception till 1972 had a chairman, deputy chairman and a few directors who were on deputation from the government.

The period 1972-74 is considered quite significant for BHEL in establishing credibility for an organisation whose reputation as a supplier of equipment and as a company in general was low. There were problems of delay in construction of plants, absorbing technology, obtaining raw materials, satisfying quality standards, labour unrest and so on. It was during this phase that the strong support extended to BHEL by some ministries, planning commission, culminated in its assuming a major role in meeting the country’s need for power equipment in the fifth plan.12

BHEL had its first full-time chairman-cum-managing director in 1972 from within the organisation as opposed to the earlier practice of the chairman being drawn on deputation from the railways and other government departments.

The Action Committee on Public Enterprises set up in 1971, strongly recommended the inclusion of whole time functional directors on the board. These recommendations took effect in 1973, with the appointment of two functional directors representing finance and personnel on the board: They were

to be responsible for overall policy, guidance and coordination of activities in the respective areas of operation. Generally the opinion during the 1970s was not in favour of having more functional directors on the board. Though it was felt as advantageous to have full-time functional directors with expertise in all major functional areas, their being entrusted with executive responsibility was not favoured. This was to deter any possible interference of the functional directors with the functioning of the units.  

Hence the Action Committee's recommendations of having functional directors for research and development, planning and technical services on the board also did not find much favour and support.

Unlike the Steel Authority of India Limited, wherein the managing directors of the steel plants are on the board, there is no such formal arrangement in BHEL. At present, the executive directors of the units are on BHEL's management committee, which discusses the broad agenda before the board meetings. This is done to elicit their views on various issues.

The board composition underwent a drastic change from 1981-82, onwards with the induction of full-time functional directors. A functional area of Research and Development found place on the board during 1981-82.

In 1984-85, three more functional areas for power, technical, industrial systems and products have been created at the board level. The organisation structure is shown in Chart 4.1.

Management Committee

There is a management committee in BHEL functioning below the board level. This comprises the Chairman and Managing Director, Executive Directors in charge of all the units and general managers of other functional areas. The

13 The directors who were appointed as functional directors were selected from amongst those who were junior in the hierarchy to the General Managers of the units.
functional directors are sometimes invited to the meetings. The monthly review of activities of different departments is done at the meetings. The enterprise’s major investment proposals are also discussed.

Present Composition of the BHEL Board

The board of Bharat Heavy Electricals Limited is a mixed board.

Size of the Board: Article 66 of the Articles of Association lays down the strength of the board. The number of directors the board is stipulated to have is not less than three and not more than fifteen.

The present strength of the board is nine members. It includes:

1. Chairman and Managing Director.
2. Director (Finance).
3. Director (Engineering and Research and Development).
4. Director (Industrial Systems and Products).
5. Director (Personnel).
6. Director (Power).
7. Two government directors: One from the Ministry of Heavy Industry and one Financial Adviser from the Ministry of Heavy Industry.
8. One non-official part-time director.

Non-Official Director: The board of directors of BHEL has one non-official director.

Worker Representative: There is no worker representative on the board.

National Thermal Power Corporation Limited

The development of the power sector in the country in the post independent period underwent a considerable change. The state electricity boards created under the Electricity (Supply) Act 1948 were unable to meet the growing demands for power. The participation of the central government in the
field of power generation initially was through the Damodar Valley Corporation set up by the Act of Parliament in 1948. The Central Electricity Authority (CEA) was later established as a part-time body in 1951 with most of its functions discharged by the Central Water and Power Commission. The CEA became a full-time body in 1974 with the bifurcation of the Central Water and Power Commission.

To meet the growing demands of power, to promote power development on a regional basis and to enable the optimum utilisation of energy resources, amendments in the Electricity Supply Act provided for the central government to enter the field of power generation. Because of the massive capital outlays, sophisticated technology and high degree of technical and managerial expertise involved in the construction, operation and maintenance of the large size thermal power stations, it was given a corporate form of organisation. The National Thermal Power Corporation Limited (NTPC) was incorporated on 7 November 1975, as a thermal power generation company in the central sector for construction and operation of large sized thermal power stations with the transmission network associated with each of the projects for evaluation of power.

The first stage of development envisaged setting up of four super thermal power stations at Singrauli, Korba, Ramagundam and Farakka. The first board of directors constituted in 1977, had a civil servant as the Chairman and Managing Director and a full-time director (Finance). It had four government nominees representing the Department of Power, as part-time directors.

During 1978-79, the strength of government nominees increased by induction of more part-time directors. They were Adviser (Energy) Planning Commission, and Joint Secretary Department of Heavy Industry. Member (Power Systems) of Central Electricity Authority has been included on the board as a part-time director.
The board had been strengthened by creation of two functional areas headed by functional directors. These were personnel and engineering. A full-time Chairman and Managing Director (CMD) was appointed on 31 August 1981. The positions of CMD and three full-time directors were upgraded to Schedules A and B respectively. The reconstitution of the board took place with inclusion of seven part-time directors. They included member (Thermal) of CEA, Joint Secretary from Department of Power, Financial Adviser from Department of Power, Joint Secretary Department of Heavy Industry, CMD of Neyveli Lignite Corporation, Adviser (Power) in Planning Commission and Joint Secretary Department of Economic Affairs.

For any organisation to maintain its dynamism and vitality, it has to continually review its functioning bearing in mind critical variables, i.e. its objectives, tasks, structure and staff. Accordingly, in 1981, a review of corporate structure was undertaken with a view to evolve a suitable structure for meeting effectively the needs of its rapidly increasing responsibilities in the context of immense expansion of areas of construction, commissioning of projects and extensive associated transmission network. In consultation with the internationally reputed power utility, the Central Electricity Board, a three-tier organisation structure was developed with the Executive Director in each region as the focal point for all aspects of construction, generation and transmission of power projects. The corporate centre was to be retained with the policy formulation, coordination and monitoring responsibilities. The policy guidelines in areas such as engineering, contracting, planning, financial, personnel and industrial relations were to be issued from the corporate centre with the task of detailing these according to the needs of each region and implementation was vested in the regional offices.

Based on the review done with the help of consultants, a consensus had emerged that the three-tier organisation would be more appropriate to serve the needs of the organisation, its efficiency and effectiveness. The introduction of
regional offices was considered to be a step towards the decentralisation in the administration which would facilitate better monitoring of construction activities and more effective control of operations in the projects.

The revised corporate structure was approved by the board at its meeting (held on 16 August, 1982). Because of the need for introduction of intermediate tier, Regional Executive Directors have been appointed for three regions: Northern, Western and Southern regions. The responsibility for design, procurement, construction and operation of the projects/stations falling within the respective regions has been entrusted to the Executive Directors. Later the Eastern, and National Capital Regions have been brought under Executive Directors.

During this period, another functional area (technical) was created at the board level. Two more functional areas, operations and projects found place on the board during 1987-88. Chart 4.2 presents the organisation chart of NTPC.

Management Committee

This functions below the board level to facilitate the internal management of the enterprise. It comprises the Chairman and Managing Director, functional directors, heads of other divisions and executive directors. The policy matters, proposals pertaining to the enterprise are discussed in the committee prior to their submission to the board.

Present Composition of the NTPC Board

The board of National Thermal Power Corporation is a mixed board.

Size of the Board: Article 40 of the Articles of Association specifies the strength of the board. The minimum number of directors the board is stipulated to have is not less than four and the maximum is fifteen. These directors may be either whole-time functional directors or part-time directors provided that the
number of part-time directors other than those from government and subsidiary companies shall not exceed one-third of the total members of the board.

The present strength of the board is thirteen members. It includes:

1. Chairman and Managing Director.
2. Director (Operations).
3. Director (Technical).
4. Director (Projects).
5. Director (Finance).
6. Director (Personnel).
7. Director (Commercial).
8. Director (Vigilance).
10. One government director from the Ministry of Finance.
11. One part-time director Member (Thermal) from the Central Electricity Authority.
12. One part-time director from Coal India Limited.

**Non-Official Director:** There is no non-official director on the board of NTPC. Though the directive of 1991 pertaining to the appointment of non-official director prevails, this has not been implemented.

**Worker Representative:** There is no worker representative on the NTPC’s board.

**Oil and Natural Gas Corporation Limited**

The petroleum industry in India at the time of independence had been largely controlled by international companies, and there was a striking dearth of indigenous expertise. The Assam Oil Company set up in 1869 was entrusted with the task of systematic exploration and production of oil. The exploration of
oil was confined only to Assam and West Bengal and production of oil was obtained only from Assam. With the result that while the oil production in 1950-51 was 0.26 mmt, the consumption of petroleum products was 3.46 mmt. In 1955, the Government of India decided to undertake the task of exploration and development of oil and natural gas resources in the various regions of the country through the public sector. This led to setting up in 1955, the Oil and National Gas Directorate under the Ministry of Natural Resources and Scientific Research. It was constituted with a team of geologists and geophysicists, whose services were secured from the Geological Survey of India (GSI).

Conversion of Directorate into Commission

The Oil and Natural Gas Directorate could not function effectively as it had constraints of limited financial and administrative powers. In effect, it functioned as a subordinate office of the government. This restricted its effective functioning in the task of oil exploration and subsequent production. To overcome this difficulty in August 1956, the Directorate was reconstituted as the Oil and Natural Gas Commission (ONGC) with enhanced powers. In October 1959, the ONGC was converted into a statutory body by an Act of Parliament. The Commission became an independent statutory body in the public sector on 15 October 1959, entrusted with the task of the exploration and exploitation of India’s resources of crude oil and natural gas.

The Act specified that the functions of the ONGC are "to plan, promote, organise and implement programmes for development of petroleum resources and the production and sale of petroleum and petroleum products produced by it and to perform such functions as the central government, may from time to time assign to it." (Section 14 of the Act).

Composition of the ONGC Board

Under the provisions of Section 4 of the ONGC Act 1959, the Commission was to consist of a chairman and not less than two and not more than eight other
members appointed by the central government and the members may be required to render whole time or part-time service, as the central government may direct. One of the members of the Commission was to be a whole time finance member, in charge of financial matters relating to the Commission.

An examination of the board composition of the Commission since its evolution shows different trends. It underwent several changes periodically.

In October 1959, the board had only the chairman and two members.

![Diagram]

Chairman (Minister)

<table>
<thead>
<tr>
<th>Member (Technical)</th>
<th>Member (Finance)</th>
</tr>
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The Commission was intended to enjoy the full powers of the government because of which, the minister headed the board as the part-time chairman from 15 October, 1959 to 25 June, 1963.

The discovery of oil by the Commission in the western region brought about some changes in the board during 1961-62. Another board level position for exploration was created.

![Diagram]

Chairman

<table>
<thead>
<tr>
<th>Member (Exploration and Planning)</th>
<th>Member (Technical and Administration)</th>
<th>Member (Finance)</th>
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During 1962-66, the board included a member (production) and another part-time member for the Koyali refinery and coordination. The Koyali-Ahmedabad products pipeline was commissioned on 1 April 1966, and was then
handed over to the Indian Oil Corporation (pipeline division) the same day, for its operation and maintenance. The ONGC board was restructured in 1966 as

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Chairman

Member (Exploration)  Member (Engineering)  Member (Production)  Member (Stores)  Member (Finance)
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The Committee on Public Undertakings of the Third Lok Sabha in its Fifth Report on ONGC noted, that since its inception the strength of the Commission has varied from three to six. The strength till recently was only three including the chairman. The Committee was of the opinion that unless the requisite strength is there, the obvious advantage of having a composite body will not be available for the efficient functioning of the Commission. It expressed concern over the need for having representatives of the Ministry of Finance or the Ministry of Petroleum and Chemicals on the board of the Commission. It felt that in order to represent the point of view of the finance and administrative ministries as well, as for maintaining close liaison and coordination with the Commission, it is desirable that a representative each be on the board as part-time members.14

These recommendations found effect with the Joint Secretary in the Ministry of Petroleum and Chemicals being inducted on the board as a part-time member since 1965.

During 1969-70, another board level position for stores was created.

The issue of reorganisation of the structure and working of the ONGC with a view to increasing its efficiency and speeding up its activities for exploration

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and exploitation of oil and gas resources in the country, had been the concern of the government in the early 1970s. Accordingly, a high powered committee under the chairmanship of K.D. Malaviya was set up on 16 July 1971. It was entrusted with the task of studying the features of the structure, organisation, finances and functioning of ONGC and make recommendations for changes and improvements to strengthen the functioning of the Commission.

The committee felt that since 1963, there has been a fall in the status of the Commission and a progressive deterioration in its performance. Conservative finance procedures, ill informed audit objections, bureaucratic methods in the administrative machinery and inappropriate selection of men for the top posts of chairman, members and general managers have all contributed to the poor performance of the Commission.15

The committee focused on the anomalies in the composition of the board worsened by the creation of posts of board members by the ministry as a matter of expediency. In the early 1960s, one CPWD engineer was appointed as member (production). Since the Commission at that time, did not know the dimension of preparation required to meet the potential problems in production and also because there was only one oil producing project at that time, this member was given charge of drilling. This created a dichotomy. Exploration and development was somebody else's charge; but drilling, both exploratory and development, became this member's charge. Since then this dichotomy has continued.

The ministry later, created the post of a member (engineering), since the engineering job in ONGC, that is drilling and production are already under the charge of member (production). The creation of this new post, according to the committee, could only create friction. Hence there was no justification for the two posts of member (production) and member (engineering) to continue in tandem.

The committee envisaged broadening the composition of the Commission by having persons versed in broad aspects of oil exploration and their inter-relationship, oil politics, economic affairs, geology, physics and engineering. Since geology has a primary role in oil exploration, it preferred the inclusion of more than one geologist in the Commission. It also made a case for having the Finance Secretary or the Secretary of Department of Economic Affairs as a member of ONGC. This was said to ensure the Finance Ministry's proper understanding of the oil exploration requirements. Items of expenditure, which are not objected to by the Finance or (Economic Affairs) Secretary will be regarded as having been cleared by the Ministry of Finance.

This recommendation of the Malaviya Committee was given effect with the appointment of Secretary, Ministry of Finance, Department of Expenditure on the board in 1974.

The board had been reorganised as follows:

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+-----------------+-----------------+-----------------+-----------------+-----------------+
|                 |                 |                 |                 |                 |
|     Chairman    | Member (Exploration) | Member (Engineering) | Member (Production) | Member (Stores) |
|                 |                 |                 |                 |                 |
+-----------------+-----------------+-----------------+-----------------+-----------------+
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The ONGC has in a note stated "arising out of the Malaviya Committee recommendations, the composition of the Commission was modified from 1974 onwards to include Secretary (P) and Secretary (Finance) as members and raising the status of the chairman and also empowering him with the powers of the chief executive..."\(^{17}\)

The functional area of personnel was created on the board in 1978. It was initially held by a member belonging to the Indian Administrative Service (IAS) on deputation from 25 December, 1978 to 24 May, 1986. Later it was held by members from within the Commission.

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\(^{16}\) Malaviya Committee : op. cit. : 51.

\(^{17}\) Committee on Public Undertakings - Eighth Report on ONGC - Organisational Structure and Project Clearance 1985-86. Lok Sabha Secretariat. New Delhi. 1986. Secretary is Secretary from the Ministry of Petroleum and Natural Gas.
Reorganisation of ONGC on Functional Specialisation

In 1982 a detailed proposal was developed in-house and placed before the Commission for reorganisation of ONGC on functional lines and formation of four business groups supported by personnel and finance groups. The proposal was approved by the government in June 1984 and implemented from July 1984. ONGC was reorganised using the concept of business groups with functional specialisation.

The Committee on Public Undertakings looking into the organisational structure and project clearance of ONGC (1985-86) was informed that the scheme seeks to fully implement the concept of centralised policy making and decentralised administration. The four functional business groups constituted were exploration, drilling, operations and technical services, each placed under the charge of a member. The functions of vigilance, corporate planning and management services, public relations, overseas and the Commission’s secretariat were placed directly under the chairman. The reorganisation scheme was based on the functional specialisation and a common basin approach.

The then chairman ONGC explained how this reorganisation scheme differed from the earlier organisation of ONGC. In his view, “earlier we were organised on the territorial basis of offshore and onshore and it resulted in many problems. Only two members were handling all the work, i.e. drilling, exploration, technical services and production. The new reorganisation is more or less based on the new international pattern. Now, the organisation is based on functional specialisation..... The Commission members would exercise their minds on the policy making, futuristic planning, management of the environment and monitoring and giving support to operations....”

18 Committee on Public Undertakings. 1985-86. op. cit. : 9-10.
Consequent upon the reorganisation, the following members were redesignated as:

Member (Offshore) - Member (Operations)
Member (Onshore) - Member (Drilling)
Member (Materials) - Member (Technical)

Composition of the ONGC Board on Reorganisation

Chairman

Member (Exploration)  Member (Operations)  Member (Drilling)  Member (Technical Services)  Member (Finance)  Member (Personnel)

In addition to these there were two government nominees, one each from the Department of Economic Affairs, Ministry of Finance and another from the Ministry of Petroleum and Natural Gas.

A few permanent invitees have been nominated by the government for the purpose of attending the Commission’s meetings. They included a) the Chairman-and-Managing Director of Oil India Limited (OIL) b) Financial Adviser and Joint Secretary to the Ministry of Petroleum and c) Adviser (Energy) in the Planning Commission.

The Committee on Public Undertakings of the Third Lok Sabha in its Fifth Report on ONGC, expressed the need for direct coordination between the Commission and Oil India Limited (OIL). It was of the view that neither had any member of the Commission been represented on the board of Oil India Limited nor had the Government Director on that board been appointed as a member of the Commission. Since OIL and ONGC are both engaged in similar activities.

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19 Committee on Public Undertakings. 1965. op.cit :38.
viz., exploration and production of crude oil, the committee felt the desirability of establishing coordination between the two organisations.

This recommendation was given effect with the appointment of Chairman and Managing Director (OIL) on the board of ONGC from 11 November, 1967.

Reorganisation of Regions

The regions have been reorganised on the basis of common basin approach. Six regions were created, i.e. Bombay Regional Business Centre (BRBC), Western Regional Business Centre (WRBC), Eastern Regional Business Centre (ERBC), Central Regional Business Centre (CRBC), Southern Regional Business Centre (SRBC) and Northern Regional Business Centre (NRBC).

Each of the Regional Business Centres is headed by a Regional Director. They are responsible for the efficient operations of the regions under their control in respect of all the activities in the region. (The region wise division under the Business Centres is given in Annexure V).

Management Services Group

The 1984 reorganisation had introduced the concept of Management Services Group (MSG). It was a new concept for the Commission and was intended only for the chairman, the members of the commission and regional heads of business groups. The MSG was entrusted with the tasks of (1) short-term and long-term planning (2) budget, budget coordination and monitoring (3) creation and codification of systems and procedures (4) management audit and technical audit (5) special assignments as members of task forces as may be appointed for specific jobs (6) quality audit against prescribed or known international standards.

Though Management Services Groups were not to be treated as a secretariat of the senior officer to whom it was attached, slowly they became
synonymous with the secretariat and further they do not perform all the duties initially intended for them. The MSG concept has further been taken right down the line with the result that even at a project level there are MSGs. It is generally felt that MSGs other than for the Chairman, members and the Executive Directors in charge of regions should be dissolved.\textsuperscript{20}

The reorganisation of ONGC in 1984 entrusted each region to a member of the board and they were known as ‘Administrative Member’. The idea behind this was to make the member responsible for the coordination of the region with responsibilities including a) budget and targets b) performance monitoring and fulfilment of targets c) discipline and other administrative matters including industrial relations requiring members’ approval d) delegation of powers e) management audit f) organisational set up g) inventory control and management.

**Executive Committee**

It is a corporate level committee constituted in 1983.\textsuperscript{21} It consists of chairman and all the full-time members of the Commission. It discusses important policy matters. The functions are (i) appraisal of the several activities of the Commission (ii) review of the follow-up actions with reference to the various decisions taken at the meetings of the Commission (iii) screen all papers, reports, etc., and direct such inter-disciplinary action as should be completed before the proposals based on these reports are submitted to the Commission (iv) each member to present progress on activities relating to their areas of control.

**Committee on Study of Organisation of ONGC**

In August 1990, the ONGC identified the need to study the existing organisational set up with a view to identify its strengths and weaknesses and to


\textsuperscript{21} Office Order No. 12/41/CW dated to June, 1983.
suggest remedial measures in order to enable the Commission meet the challenges of the future in tune with its expansion of activities. A committee was set up headed by a former member (personnel) of ONGC.

The committee emphasised the importance of planning in the context of the challenges it is to face and the financial and foreign exchange ambience in which it needs to function in the current decade. According to the committee:

a) There is need for a separate member (planning) which is vital for the effectiveness of the Commission. Though each member is responsible for short-term and long-term planning of the operations under their charge, there is a definite need for a separate member in the Commission to take an integrated and coordinated view of the several proposals before they become part of a corporate plan. The responsibilities of the member (planning) will include techno-economic analysis, evaluation of resources, identification of thrust areas and opportunities, analyses of the investment outlay and human organisational resources, the business environment for the investment and drive, alternative scenario constructions with appropriate sensitivity analyses. The monitoring of plans once approved was also to be responsibility of the member (planning).

b) To introduce a collegiate approach towards evolving a strategy and problem solving at board level, the committee recommended making the regional heads or at least the heads of the four producing regions to be concurrently the members of the Commission.

c) The practice of the administrative member being responsible for each region was to be done away with.

d) The board composition was to be modified including the 1) Chairman 2) Member (Planning) 3) Member (Exploration) 4) Member (Production) 5) Member (Drilling) 6) Member (Engineering) 7) Member (Research and Development) 8) Member (Logistics) 9) Member (Finance) and 10) Member (Personnel) and two nominees of the Government of India.

e) A Regional Management Board (RMB) is to be set up for each region assigned with powers for decision making with regard to tasks, targets, projects and other assignments of the region.

These recommendations were not implemented fully by the Commission.

In June 1991, the system of an administrative member for each region was
terminated by the chairman. Regional Management Boards (RMBs) have been created. These are chaired by the concerned regional directors. Policy issues concerning the exploration, drilling operations of the region, cost control and reduction measures are some of the issues discussed at these meetings.

The ONGC, over the years retained its original scope and character without many changes taking place in its organisation, style of functioning and other related technical aspects. Most national oil companies globally have evolved vertically integrated organisations dealing with the whole gamut of exploration, production, refining and marketing activities. But these do not seem to have taken place in ONGC.

The Government of India had constituted a committee in June 1992 headed by P.K. Kaul, to examine all aspects of ONGC’s existing organisation so as to examine the need for its restructuring. The committee reiterated the need to look at the present structure and functioning of the ONGC in the light of global developments taking place and especially in the oil sector. The organisation needs to constantly remain in touch with technology developments abroad. Also, the business environment relating to oil has also been quite different from what it used to be. ONGC’s activities have increased manifold and have become complex in regard to technology and resources. In consonance with these changes, the committee recommended a change in the organisational form of ONGC from a statutory corporation into a company under the Companies Act 1956.

The board managed company according to the committee will have greater financial, commercial and management flexibility in its day-to-day operations. The company’s board would have the necessary authority to delegate all or such of its powers down the line for quick decision making and implementation.
It recommended the constitution of three companies to take over ONGC's present day operations. Each of these companies shall be a 100 per cent public sector company which will be board managed with the Chairman-cum-Managing Director as the Chief Executive Officer. These companies would be:

a. North West Oil and Gas Company with headquarters at Ahmedabad.
b. South Peninsula Oil and Gas Company with headquarters at Bombay.
c. Eastern and Southern Oil and Gas Company with headquarters at Nazira.

The composition of the board as prescribed by the committee was:

a. Chairman-cum-Managing Director (full-time).
b. Director (Operations).
c. Director (Exploration).
d. Director (Personnel and Administration).
e. Director (Finance).
f. Government Nominee (part-time) Joint Secretary dealing with production and exploration.
g. Two persons of repute (part-time) from outside associated with oil and gas industry.

The corporatisation of ONGC came in wake of the government's decision to convert the commission form of organisation into a public limited company under the Companies Act of 1956. ONGC became Oil and Natural Gas Corporation Limited on 1 February 1994. The personnel, assets and liabilities of the Commission were transferred to the newly formed corporation through ONGC (Transfer of Undertaking and Repeal) Act of 1993. This was done with the objective of enabling ONGC to function with a better commercial approach and greater flexibility in its policies (A note prepared by the ONGC regarding this is in Annexure VI).

The conversion of ONGC into a company led to its functioning being subject to a review in 1995 by the Administrative Staff College of India (ASCI). The study titled ‘Strategic Planning and Organisational Restructuring of ONGC’
recommended the conversion of ONGC into a holding company and its operations be split into five regional subsidiaries. It outlined six models for the restructuring of ONGC:

These included:

a) Holding company and subsidiaries - region wise.
b) Holding company and subsidiaries - function wise.
c) Onshore and offshore companies.
d) Divisionalised structure.
e) Business groups as separate companies.
f) Regions as independent companies.

The ONGC was envisaged to be the holding company for all the subsidiary companies with responsibility for the exploration policy, research and development institutes, joint ventures, northern region and overseas ventures. (The recommended board structure for ONGC as holding company and its subsidiaries is given in Annexure VII).

The broad-basing of both the holding company and regional subsidiaries was considered desirable by ASCI by including outsiders from the oil industry, financial institutions and other large industries. It commented on large and complex organisations like ONGC, having a small board with seven functional directors and two government directors. Also, the directors had very short tenures.

The ASCI report has recommended that the very step in making ONGC a vibrant commercial organisation would be to infuse broad-based thinking in the board level decisions. The presence of managing directors of regional subsidiaries on the ONGC was to enhance their status and give them authority to act independently in their regions.
Study Group on Hydro Carbon Perspective 2010:  
Meeting the Challenges

In consonance with the government’s policy of economic liberalisation, the government desired the need for the oil and gas industry to achieve international competitiveness and emerge as a world class global player in the hydro carbon sector. Accordingly to deliberate on this a study group comprising members drawn from various oil companies was set up. It was required to develop a comprehensive long-term perspective plan for the hydro carbon sector to meet the challenges that may emerge by the year 2010. It was also to recommend the measures to be adopted by the government for restructuring the hydro carbon sector and suggest systems to ensure free and fair competition to protect the consumer’s interest in a deregulated scenario.

This study group emphasised improvement of corporate governance of the public sector enterprises. It recommended the constitution of a two-tier board. It is to have an ‘executive board’ consisting of full-time functional directors with full powers to function, and a ‘supervisory board’ consisting of non-executive independent chairman, representatives drawn from the administrative ministry trade unions, mutual funds, financial institutions and professionals from management institutes and institutes of technology. The ‘supervisory board’ is to be entrusted with the task of monitoring the performance of executive board and to give broad directions of major policy initiatives.22

These recommendations till date have not been accepted by the government.

Present Composition of the ONGC Board

The Oil and Natural Gas Corporation board is a mixed board. The organisation structure is represented in Chart 4.3.

Size of the Board: Article 103 of the Articles of Association of the ONGC specifies the strength of the board. The minimum number of directors the board is stipulated to have is not less than four and the maximum is twenty-one.

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The present strength of the board is eleven members. It includes:

1. Chairman and Managing Director.
2. Director (Finance).
3. Director (Exploration).
4. Director (Drilling).
5. Director (Operations).
6. Director (Technical).
7. Director (Personnel).
8. Two government directors from the Ministry of Petroleum and Natural Gas.
9. One government director from the Ministry of Finance.
10. One part-time director - Chairman and Managing Director of Oil India Limited.

Non-Official Director: There is no non-official director on the board of ONGC. Though the directive of the Department of Public Enterprises pertaining to the appointment of non-official director has been received in 1992, this has not been implemented by the corporation. The respondents, during informal interviews with the researcher, observed that since the functional directors in the organisation, are experts and professionals in their respective areas, there has not been much of a need for appointment of outside experts as directors.

Worker Representative: There is no worker representative on the ONGC board.

Steel Authority of India Limited

Iron and steel are important ingredients in the industrial, agricultural and infrastructural sectors of an economy. But initially in India, not much emphasis has been given to the development of the steel industry, especially in the public sector. The first effort at large-scale production of iron and steel was by Tatas when Tata Iron and Steel Company was set up at Jamshedpur in 1907 with a capacity of producing 30,000 tonnes of steel per annum. The other steel
producer has been the Indian Iron and Steel Company established in 1918 with modern steel making facilities at Burnpur. Another venture in this direction has been the Mysore Iron and Steel Works founded in 1918 renamed later as Visveswaraya Iron and Steel Works. These three industries were the major steel producers of the country at the time of independence each producing 675000, 188000 and 23000 tonnes of saleable steel respectively.23

The government's diffidence towards developing the steel industry in the public sector during the late 1940s and early 1950s has been due to three reasons. First of all, in the pressing need to accelerate production, the accent had to be on drawing out the best from existing industrial units, almost all of which were in the private sector. Secondly, veterans in the Indian Steel Industry like J.R.D. Tata did not think that there would be any rapid increase in the demand for iron and steel. Thirdly, foreign experts, economists in Britain and international organisations like the World Bank were firmly of the view that India should accord priority to agriculture and infrastructure and not dabble in long gestation efforts like iron and steel.24

But slowly after having realised the need to step into the domain of the steel industry, the government in 1952, had appointed a technical committee to assess the demand for steel. Pending the submission of the report by the committee, the government had set up the Hindustan Steel Limited (HSL) on 19 January 1954, as a joint stock company under the Companies Act 1956, to construct and manage the steel plant at Rourkela that was being set up with West German collaboration to raise about one million tonnes of steel. While the projected demand of steel in India during 1960-61 was six million tonnes, the total steel manufacturing capacity was only two million tonnes. Hence this necessitated the commissioning of two more steel plants with a capacity of one

million tonne each at Bhilai and Durgapur with Russian and British collaboration respectively. On 1 April 1957, the management of these two plants was also assigned to Hindustan Steel Limited, to facilitate a coordinated programme of steel production and distribution.25

**Board of Directors of Hindustan Steel Limited**

The board of directors of Hindustan Steel Limited had undergone several changes periodically with regard to nature and composition.

At its inception during 1954-55, HSL had a policy board with all part-time directors including the chairman. There was a full-time managing director. The Secretary, Ministry of Steel was the chairman of the board in a part-time capacity. Out of a total membership of ten on the board, there were five non-official members. Of these two represented German interests, two came from the private sector and one represented the interests of labour. The transfer of Bhilai and Durgapur Steel Plants in 1957 to Hindustan Steel Limited witnessed some changes in the board. It was reconstituted with the inclusion of general managers of the three steel plants as full-time directors. As a sequel to the directive of the government in 1958, with the secretary of the department not to be on the board of the undertaking under his control, a full-time chairman-cum-managing director was appointed on the board. The complexion of the board transformed into policy-cum-functional, with no changes in the nature of the board’s functions. The board’s size increased to twelve members out of which nine were officials.

In 1957, a committee of the board was set up comprising the Chairman, the Deputy Chairman, the Finance Director and “such other directors as might be available.” It exercised the board’s full powers, subject to Section 292 of the Companies Act. The objective of setting up the committee was for the disposal

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25 This was done on Paul H. Appleby’s recommendations. In his report on the administration of government industrial and commercial enterprises, Appleby recommended consolidation of all special organisations according to a scheme of coherent mission. 153
of business between the meetings of the board of directors. The decisions taken by it were final and did not require any ratification or confirmation by the board.

The Estimates Committee, in its thirty-third report on Hindustan Steel Limited critically examined the board’s nature and composition. It pointed out the fluctuations in the size of the board which varied from time to time from thirteen to ten members. It was of the opinion that bearing in mind the tasks to be performed and the requirements therefore, the members of the board might be drawn from a wider sphere and more technical experts, persons from public life and from various non-official sources be appointed to the board. It also felt that in the interests of the company, more full-time directors should be appointed on the analogy of the Railway Board and to the extent possible, continuity among the full-time members should be ensured.

During the period 1959-61, the phase of construction of steel plants was at a peak. The functions of production, personnel and finance assumed importance. To tackle these functions, in pursuance with the recommendations of the Estimates Committee, the board underwent a change to the functional type. This resulted in the appointment of five full-time directors for personnel, finance, commerce, production and construction.26

In addition to this, the Committee of Directors was transformed into a Committee of Management. It had full-time directors and chairman who carried out most of the functions of the board. The board, which met once in three months, mostly ratified the decisions taken by the Committee of Management.

1962-63

The early years of HSL witnessed a change in the adoption of a policy board to a functional board. The next phase once again saw a reversal of the trend leading to restoration of the policy board.

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The then Minister of Steel and Heavy Industries made a statement in the Parliament on the question of management of public sector enterprises. He advocated devolving of more autonomy in the routines at the plant level, reserving to the headquarters and to the board, the very important functions of broader policy making and staff services which are advisory and consultative in nature.27

This brought some changes at the board level. The powers of General Managers of the plants were enhanced. The functional directors were removed, because in a system where enhanced delegation of powers to the General Managers of the plants was affected, it was felt that functional directors would merely act as a fifth wheel to the coach. The General Managers also no longer continued on the board. The policy nature of the board was restored with only one full-time director and the chairman on the board. Consequently, the Committee of Management was also abolished. The policy board continued till 1967.28

The Committee on Public Undertakings of the Third Lok Sabha expressed dissatisfaction over too frequent changes made in the board of HSL. Since 1954, it had more than one hundred persons as members and six different chairmen. Before persons who were placed in charge had settled down and had time to bring to bear their personality and experience on the functioning of the organisation the system was replaced by a new one..... It voiced concern over the futility of policy board which can at best advise, guide and coordinate and is hardly effective in matters of initiating, deciding and supervising. An alternative to it could be a functional board similar to that of a railway board.29

1968-70

The board level changes were again effected in 1968, with the next Minister for Steel, Mines and Metals favouring the transformation of policy into a functional board. He outlined the need for strengthening the board of directors to discharge policy making, advisory and consultative functions. A vigorous approach to sales, careful and coordinated planning of production to maximise profit, systematic control of cost, coordination of production was emphasised. The board of management in the policy nature was not equipped for the needed performance of planning, control and advisory functions as required by the changed circumstances.\(^30\) Certain changes were proposed in the composition of the board with the inclusion of the two Deputy Chairmen, three full-time functional directors dealing with personnel and industrial relations, commercial activities and finance. The General Managers of the three steel plants were once again to be on the board, to provide the board with the practical knowledge of the working of the plants. This way the functional character of the Hindustan Steel board was again restored.

1971-72

The Hindustan Steel Limited board during 1971-72, had thirteen members including the chairman. There were four functional directors and three general managers of the steel plants on the board. The remaining were from the Ministries of Finance and Steel, the Chairman of Heavy Engineering Corporation, and a non-official director.

The Committee on Public Undertakings of the Fifth Lok Sabha hoped that the present system of the functional board would be given a fair trial and cautioned against frequent changes either in the character or personnel of the board. Since the board has four functional directors, the committee expected the top management to have effective central control on important matters of policy

and to provide suitable guidelines to the plant with a view to improve their working.\textsuperscript{31}

The Committee of Management abolished in 1963, was once again revived in December 1971. It had the chairman, full-time directors, the Chief Engineer Central Engineering and Designs Bureau and the four General Managers. It acted as a forum for discussion of issues to be raised at the board meeting and for exchange of views on matters of common interest in the plants and the company at large. One of the important objectives of the committee had been to develop team spirit and bring about uniformity of approach in important matters.\textsuperscript{32}

During 1972, a need was felt to bring about major institutional and structural changes in the organisation, principally in the public sector steel industry and other associated input industries, in order to plan, promote and organise an integrated, efficient and accelerated development of these industries. The public sector had to be made more efficient in order that it might contribute far more than it had been doing to the aggregated pool of investible surplus in the national economy. At the same time, government having become increasingly a substantial shareholder in large scale industrial concerns in the steel and associated input industries, it was essential to devise a suitable mode of ensuring the proper management of the concerns in which it owned substantial or near majority shares. Thus was born the idea of a holding company.

A holding company is generally described as a super corporation which by virtue of its share ownership and voting rights in other corporations is in a position to exercise control over or materially influence the management of those


\textsuperscript{32} Laxmi Narain. 1981. op. cit.: 401.
other corporations known as subsidiaries.\textsuperscript{33} It was first evolved in the United States of America towards the end of the 19\textsuperscript{th} century but put to use in Italy in setting up of the Italian Institute of Industrial Reconstruction (IRI), under which the majority of public sector enterprises have been brought.

The idea of adoption of holding company form to the Indian public sector steel industry was that of the late Minister of Steel and Mines Mohan Kumaramangalam. The objective behind this was to replace 'Civil Service Culture' by 'Industry Culture' in public enterprise management. A change in the relationship between the secretariat and the minister was sought by substituting the holding company for the secretariat. In this pattern, the chairman of the holding company was also the head of the secretariat and therefore, the principal advisor of the minister in the area of activity of the holding company. The holding company was an attempt to hand over the powers of the government which are essentially vested in a civil service dominated organisation, i.e. the secretariat to the holding company whose personnel will be drawn up from professional managers who have come up from within the industry and who will run the organisation on industrial - commercial principles.\textsuperscript{34}

The structure of the Steel Authority of India Limited (SAIL) was largely based on the report of a working group which examined the holding companies functioning in Europe. SAIL was incorporated as a holding company in January 1973. The objectives were to:

\begin{enumerate}
  \item plan, promote and organise an integrated and efficient development of the iron and steel and associated input industries such as iron ore, coking coal, manganese, limestone and refractories in accordance with National Economic Policy and objectives laid down by government from time to time.
\end{enumerate}


ii) coordinate the activities of its subsidiaries to determine their economic and financial objectives/targets and to review, control, guide and direct their performance with a view to securing optimal utilisation of all resources placed at their disposal.

iii) act as an entrepreneur on behalf of the state, to identify new areas of economic investments and to undertake, or help in undertaking such investments and

iv) formulate and recommend to government a national policy for the development of iron and steel and related input industries and to advise it on all policy and technical matters.35

The SAIL was expected to provide a comprehensive framework of an organisation for ensuring coordinated development of the steel industry and other industries intimately connected therewith as major suppliers of inputs, thus ensuring economies of both vertical and horizontal integration. To facilitate this certain enterprises were transferred to SAIL, as a result of which they became fully owned subsidiaries of SAIL. They include:


The SAIL Board of Directors

The board had a chairman, four full time directors in charge of finance, technical, commercial and personnel. The chief executives of the subsidiary companies have also been appointed to the board of SAIL.

The Secretary to the government in the Ministry of Finance and the Secretary to the Planning Commission have also been appointed as non-rotational directors on the board.

According to this pattern, the Chairman of SAIL was concurrently the Secretary to the government in the Ministry of Steel and Mines.

35 Laxmi Narain. 1990. op.cit : 56.
The rationale behind this was

i) that the holding company should exercise entrepreneurial functions on behalf of the government, marshall and operate investment in areas considered as core and strategic;

ii) operations and management of the holding company was to be done on sound industrial and commercial principles. Government shall lay down broad policy objectives which shall form the parameters within which the holding company shall operate;

iii) performance evaluation of the holding company and its subsidiaries is required to be undertaken in the context of fiscal norms and targets laid down by the government.

Combining the positions of Chairman SAIL and Secretary in the Ministry of Steel was to ensure that the holding company is able to carry out its duties and functions in the most efficient manner possible with the minimum necessary amount of guidance from the ministry and government.36

The experiment of holding company had failed as it could not establish a proper working relationship between the company and ministry and with the subsidiaries. The autonomy to the subsidiaries as was envisaged earlier could not be devolved in practice. As rightly observed by some critics, “Some of us expressed the apprehension that the proposed holding company might be tempted to exercise too close a control and direction of the constituent units, that it might really try to ‘hold’ tightly the entire field under it. Since it would have a truly vast and varied jurisdiction any tendencies of this kind would make the whole set up too cumbersome and deprive the plants of initiative and autonomy.”37

The Ministry of Steel and Mines expressed dissatisfaction over the experiment of the holding company for having not given good results. Hence the


concept of the holding company was finally dismantled.38 As aptly observed, "Whether the idea worked well or not, Kumaramangalam's success or unceremoniously, without a review or analysis dismantled the whole arrangement, because he did not like the secretary chairman."39

The restructuring of the holding company was on the anvil and an act was passed by the Parliament in 1978. Consequently the Public Sector Iron and Steel Companies (Restructuring) and Miscellaneous Provisions Act 1978 came into force with effect from 1 May 1978. With this, the Hindustan Steel Limited, Bokaro Steel Limited, Salem Steel Limited, Bhilai Ispat Limited, Rourkela Ispat Limited, Durgapur Ispat Ltd. as subsidiaries of SAIL were dissolved and integrated with it.

Changes at Board Level

The reorganisation of SAIL in 1978-79, brought changes at the top level which underwent modifications periodically keeping in tune with the expansion, alteration and development of the company.

SAIL ceased to be a holding company and the restructured integral firm came into existence in 1978. The board then had only the chairman, vice chairman and the managing directors of Bhilai, Bokaro, Durgapur and Rourkela steel plants.

In 1979-80, two more functional areas were represented on the board i.e. Research and Development and Commercial.

During 1980-81, one more functional area of personnel was added to the board.

Another area (technical) was created in 1981-82.

38 Political reasons also seem to be the key factor for this as the Janata Government in 1977 considered the holding company to be the creation of the earlier Congress Government.
The position of functional director for finance was created in 1982-83.

During 1985-86, a new functional area of corporate planning was added to the board.

**Present Composition of the SAIL Board**

The Steel Authority of India Limited board is a mixed board. Chart 4.4 depicts the organisation structure of SAIL.

**Size of the Board:** Article 69 of the Articles of Association of SAIL specifies the strength of the board. The minimum number of directors the board is stipulated to have is not less than six and the maximum is twenty-one.

The present strength of the board is eighteen. It includes:

1. Chairman and Managing Director.
2. Vice Chairman.
3. Director (Corporate Planning).
4. Director (Projects).
5. Director (Operations).
6. Director (Personnel).
7. Director (Finance).
8. Director (Research and Development).
9. Director (Commercial).
10. Managing Director (Bhilai Steel Plant).
11. Managing Director (Bokaro Steel Plant).
12. Managing Director (Durgapur Steel Plant).
13. Managing Director (Rourkela Steel Plant).
14. Government Director - Joint Secretary from the Ministry of Steel and Mines.
One part-time Director - Managing Director of the Indian Iron and Steel Company.

One part-time non-official director.

One representative of labour.

**Non-Official Director:** There is one non-official director on the board of SAIL.

**Worker Representative:** There is a member from Trade Unions representing the workers on the board.

**Board Size and Interest Representation**

The size of the board of an enterprise is of key importance, as the number of people on the board is said to influence the board functioning and the effectiveness of the discussions in the board. There can be no standardised formula that determines the size of the boards. It is influenced by a host of factors such as nature of the enterprise, size of operations, number of units under its control, complexity of business, magnitude of investment and so on.

A recent debate on corporate governance in the United States made a case for a reduction in the size of American boards. In a 'Modest Proposal for Improved Corporate Governance' it was recommended that boards should be limited to a maximum of ten directors. Indeed they would favour boards of eight or nine – the reason that smaller boards will encourage directors to get to know each other well, to have more effective discussions with all directors contributing and to reach a true consensus from their deliberations.⁴⁰

It has been suggested that it is sensible to limit a board to thirteen members in order to obtain the free discussion and deliberative interplay which

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board decisions require.\textsuperscript{41} If the board consists only of a handful of individuals, it soon develops into a small exclusive clique which can become inward looking, increasingly isolated from the rest of the organisation and deprived of the opportunity to consider fresh and independent viewpoints. On the other hand, issues requiring attention can be swiftly dealt with, if the board is too large, consisting of twenty or thirty individuals (some boards are even larger), it can soon become a talking shop and even minor issues then tend to take an inordinate amount of time to discuss.\textsuperscript{42}

The Estimates Committee had been of the opinion that the size of the boards should be guided by two considerations, viz., essential representation and workable size.\textsuperscript{43}

The analysis of the enterprises selected for study reveals that the present strength of these boards varies from nine to eighteen members. The Steel Authority of India Limited has the largest board of eighteen members. Being a multi unit enterprise, the managing directors of its steel plants are also represented on the board. The Articles of Association of this enterprise provides for twenty-one members as the maximum strength of the board.

The investment in the four enterprises in the form of both paid up capital and loan has been shown in Table 4.1. It indicates that NTPC ranks high in terms of investment and the board’s strength is twelve members. While SAIL’s investment is not high as compared to NTPC and ONGC, yet it has the largest board to the tune of eighteen members. Hence it can be said that there is as such no correlation between the board’s size and investment of the enterprise.


TABLE 4.1
Investment Excluding Holding Company
Investment in Four Enterprises
as on 31.3.96

<table>
<thead>
<tr>
<th></th>
<th>Paid up Capital</th>
<th>Loan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHEL</td>
<td>24,476.00</td>
<td>87,981.00</td>
<td>112,457.00</td>
</tr>
<tr>
<td>NTPC</td>
<td>733,497.00</td>
<td>1,020,347.00</td>
<td>1,753,844.00</td>
</tr>
<tr>
<td>ONGC</td>
<td>139,592.00</td>
<td>1,207,035.00</td>
<td>1,346,627.00</td>
</tr>
<tr>
<td>SAIL</td>
<td>360,571.00</td>
<td>770,842.00</td>
<td>1,131,413.00</td>
</tr>
<tr>
<td>Total</td>
<td>1,258,136.00</td>
<td>3,086,205.00</td>
<td>4,344,341.00</td>
</tr>
</tbody>
</table>

The size of the boards though is said to be determined more by the extent of interest representation, in these enterprises the boards seem to be devoid of any such representation. The composition of interest representation on the boards of the four enterprises as represented in Chart 4.5 indicates that there is predominance by the whole time functional directors constituting nearly 64 per cent of the strength of boards. The representation of government nominees is 20 per cent, while part-time directors present on the board in ex-officio capacity from other enterprises form 10 per cent of total strength of board. The non-official directors constitute an insignificant proportion of 4 per cent. While labour representatives comprise only 2 per cent of the board strength. An overwhelming majority of the respondents comprising 64.29 per cent, 60.0 per cent, 72.72 per cent, 70.59 per cent of board level executives in BHEL, NTPC, ONGC, and SAIL as represented in Chart 4.6 have considered the existing strength and composition of the board to be adequate. The strength of the board basically is represented by the chief executive, functional directors and government directors. Except in two enterprises, the remaining two do not have specialists as non-official directors. Those two enterprises i.e. BHEL and SAIL which had a non-official director each cannot said to be experts in the true sense whose expertise could add vitality to the board. They had been inducted on the board at
Perception of Board Members on the Adequacy of Existing Strength and Composition of Board of Directors

![Bar chart showing percentage of adequacy by enterprises]

- **BHEL**: Adequate 64.29%, Inadequate 14.28%, Cannot Say 21.43%
- **NTPC**: Adequate 60.00%, Inadequate 26.67%, Cannot Say 13.33%
- **ONGC**: Adequate 72.72%, Inadequate 9.10%, Cannot Say 18.18%
- **SAIL**: Adequate 70.59%, Inadequate 17.65%, Cannot Say 11.76%
the behest of the concerned ministers. The board has the capacity to bring as non-official directors, persons who can add value to the board, the ultimate power to do ultimately vests with the political executive.

In the BHEL board, a non-official director was inducted who had competing business interests, without seeking the board’s advice. Those persons with a private agenda in mind and conflicting objectives cannot add strength to the board.44

As revealed by the former chairman and managing director of SAIL, “The then Minister of Steel appointed an academic in English from the North Eastern Hill University on the board as a non-official director. Having someone of stature as Jamshed Irani of TISCO, could have added to the expertise of the board.”45

A research study which tried to focus on the effect of corporate board size on corporate failure could not make a breakthrough. It was not successful in its attempt to prove, that the firms due to small boards and that had they taken action in good time to increase the size of their boards, all their problems would have been resolved. It is impossible to establish a causal relationship as there is always a distinct possibility, that the size of the board is merely a manifestation of other factors which influence the operations of the company and the level of its performance.46 It is just not the board’s size that matters in corporate performance, but many other related factors such as the style of management of the chief executive, technology, product mix, competition, etc.

**Tenure of the Board**

The stability of the tenure of the personnel, especially those at the higher level in an organisation is considered one of the key determinants of the

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44 This aspect has been taken care of by the search committee appointed by the DPE while laying down criteria for appointment of non-official directors in public sector enterprises.

45 Based on an interview given to the researcher on 6 March, 1997, in New Delhi.

organisational effectiveness. Intermittent discontinuities in top management can be detrimental to the organisation's health. Uncertainty of tenure of top management has an effect on the policies, long range plans and programmes of the enterprise. Persistent changes, especially of chief executives results in modification, revision and at times reversal of the policies and decisions taken by the predecessors. This leads to blurring of accountability of the top management. In the view of former CMD SAIL, "Continuity in policy matters is important as generally a successor does not want the policies of the predecessor to continue."

A reasonably long tenure of top management is required to ward off the ill effects of instability and build confidence amongst employees. This is essential for effective formulation and implementation of strategies, developing a team and inculcate enterprise culture.

The Articles of Association of the enterprises under study do not prescribe the terms of appointment of the chief executive and full-time functional directors. Their letter of appointment lays down their term of office as five years or till they reach the age of superannuation, whichever is early. But mostly on selection by the time somebody from within the organisation assumes the board level position, that person is left with two years or so. There are very few who continue to serve the full tenure of five years. Those members with less than two years to go for superannuation are not considered by the PESB for any board level position.

The Administrative Reforms Commission commented that "As for the posts of chairman and full-time directors of the board, we recommend that fairly long period of tenures should be laid down. This would enable the person appointed to make a significant contribution on the basis of experience he gains in that undertaking. We suggest that a period of five years should be regarded as the minimum for full-time members of the board." This had been reiterated later by many other committees also which considered a five year tenure as
optimum for the board members.\textsuperscript{47} Lord Simon who served as Chairman BBC said "I found five years much too short a period if one hoped to have any effective influence. I had just about got a real grasp of the business when I retired."\textsuperscript{48} Simon held the position of a governing director in Henry Simon Limited and Simon Carves Limited for approximately 40 years. He considered "increasing experience and continuity of control over this long period were the main reasons for steadily improving results."\textsuperscript{49}

The tenure of the chairmen and functional directors of the four enterprises has been analysed during the period 1985-86 to 1996-97.

\textbf{TABLE 4.2}

\textbf{Continuity of Tenure of Chairmen and Managing Directors and Functional Directors in Four Enterprises (1985-86 to 1996-97)}

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Enterprise</th>
<th>0-6 Month</th>
<th>6-12 Month</th>
<th>12-18 Month</th>
<th>18-24 Month</th>
<th>24-30 Month</th>
<th>30-36 Month</th>
<th>36-42 Month</th>
<th>42-48 Month</th>
<th>48-54 Month</th>
<th>54-60 Month</th>
<th>60+ Month</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>BHEL</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>C</td>
<td>16</td>
</tr>
<tr>
<td>2.</td>
<td>NTPC</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>15</td>
</tr>
<tr>
<td>3.</td>
<td>ONGC</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>6</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>4.</td>
<td>SAIL</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>7</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>10</td>
<td>5</td>
<td>8</td>
<td>2</td>
<td>13</td>
<td>1</td>
<td>4</td>
<td>19</td>
<td>80</td>
</tr>
</tbody>
</table>

C - Chairman and Managing Director  
FD - Functional Director

It can be inferred from Table 4.2 and Chart 4.7, that of the 23 chairmen, 30 per cent served the board for a period of six months. While 22 per cent were on the board for more than two years. But it is quite encouraging that 17 per cent of the chairmen assumed office for more than five years. Amongst the four


\textsuperscript{49} Ibid.
Tenure of Chairmen and Managing Directors in Four Enterprises
(1985-86 to 1996-97)
enterprises, NTPC, ONGC and SAIL had three chairmen whose tenure exceeded five years.

The tenure served by functional directors during the same period as represented in Table 4.3 and Chart 4.8, indicates nearly 32 per cent of them were on the board for a period of three to four years. Around 11 per cent of the functional directors’ tenure exceeded four years. There were 15 per cent of them who occupied office for more than five years. While 24 per cent of the functional directors had been on the board for one to two years. The reason being that with most of the full-time directors occupying the board position at the age of 55 years, their tenure remained considerably less.

**TABLE 4.3**

**Tenure of Chairmen & Managing Directors and Functional Directors in Four Enterprises**

*(Aggregate Analysis)*

*(1985-86 to 1996-97)*

<table>
<thead>
<tr>
<th>Period in months</th>
<th>Chairman</th>
<th>% to Total</th>
<th>Functional Directors</th>
<th>% to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-6</td>
<td>7</td>
<td>30.43</td>
<td>2</td>
<td>2.50</td>
</tr>
<tr>
<td>6-12</td>
<td>0</td>
<td>0.00</td>
<td>4</td>
<td>5.00</td>
</tr>
<tr>
<td>12-18</td>
<td>0</td>
<td>0.00</td>
<td>2</td>
<td>2.50</td>
</tr>
<tr>
<td>18-24</td>
<td>1</td>
<td>4.35</td>
<td>10</td>
<td>12.50</td>
</tr>
<tr>
<td>24-30</td>
<td>5</td>
<td>21.74</td>
<td>8</td>
<td>10.00</td>
</tr>
<tr>
<td>30-36</td>
<td>2</td>
<td>8.70</td>
<td>13</td>
<td>16.25</td>
</tr>
<tr>
<td>36-42</td>
<td>2</td>
<td>8.70</td>
<td>13</td>
<td>16.25</td>
</tr>
<tr>
<td>42-48</td>
<td>1</td>
<td>4.35</td>
<td>4</td>
<td>5.00</td>
</tr>
<tr>
<td>48-54</td>
<td>1</td>
<td>4.35</td>
<td>9</td>
<td>11.25</td>
</tr>
<tr>
<td>54-60</td>
<td>0</td>
<td>0.00</td>
<td>3</td>
<td>3.75</td>
</tr>
<tr>
<td>60 &amp; Above</td>
<td>4</td>
<td>17.39</td>
<td>12</td>
<td>15.00</td>
</tr>
</tbody>
</table>

Total          | 23       | 100        | 80                   | 100        |
enure o unc iona irec ors in our n erprises
(1985-86 to 1996-97)

30-36 15%
36-42 16%
24-30 10%
18-24 13%
12-18 6%
0-6 3%
6-12 5%
12-18 3%
18-24 13%
24-30 10%
36-42 16%
30-36 15%
54-60 4%
48-54 11%
42-48 5%
60 & Above 15%
A majority of top executives in the four enterprises over the last decade had a medium tenure of office ranging from 24 to 48 months as evident from Table 4.4.

**TABLE 4.4**

**Tenure-Wise Classification of Board Members in Four Enterprises**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Category</th>
<th>Chairmen</th>
<th>Functional Directors</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Shorter Tenure (Less than 24 months)</td>
<td>8</td>
<td>18</td>
<td>26</td>
</tr>
<tr>
<td>2.</td>
<td>Medium Tenure (24 to 48 months)</td>
<td>11</td>
<td>50</td>
<td>61</td>
</tr>
<tr>
<td>3.</td>
<td>Longer Tenure (48 months and above)</td>
<td>4</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>23</strong></td>
<td><strong>80</strong></td>
<td><strong>103</strong></td>
</tr>
</tbody>
</table>

The perceptions of board members of four enterprises pertaining to a suitable period of tenure has been shown in Chart 4.9 which indicates preference being shown towards a five year term. Nearly 71.43 per cent, 66.66 per cent, 68.18 per cent and 76.47 per cent of board executives in BHEL, NTPC, ONGC and SAIL respectively, considered five years as optimum tenure.

**Succession Planning**

An important issue relating to the tenure is that of succession planning. This is a very important feature of any personnel system of an organisation. Developing a proper succession planning requires devising a performance evaluation system, developing persons after assessing their training needs and also working out suitable training programmes to enable them occupy the positions. It has been observed by the researcher that in general in most of the public sector enterprises, this aspect has not been given adequate importance.
Perception of Board Members on Suitable Tenure of Board

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Above 5 Years</th>
<th>5 Years</th>
<th>Less than 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>BHEL</td>
<td>71.43%</td>
<td>26.67%</td>
<td>21.43%</td>
</tr>
<tr>
<td>NTPC</td>
<td>66.66%</td>
<td>6.67%</td>
<td>7.14%</td>
</tr>
<tr>
<td>ONGC</td>
<td>68.18%</td>
<td>9.09%</td>
<td>22.73%</td>
</tr>
<tr>
<td>SAIL</td>
<td>76.67%</td>
<td>17.65%</td>
<td>5.88%</td>
</tr>
</tbody>
</table>
often leading to arrangements being made on an ad-hoc basis. In the four enterprises under study at the time of their inception, the management had invariably been entrusted to a board headed by civil servants on deputation from government. BHEL had deputationists from the civil service as Chairman and Deputy Chairman from 1964 to 1972. Similarly NTPC’s first board of directors constituted in 1977, had a civil servant as Chairman and Managing Director and its full-time CMD was appointed only in 1981.

ONGC being an enterprise in oil sector considered important for the national economy, it was felt desirable to have a minister heading the enterprise. The ministerial leadership has been considered to facilitate quick decision making.

There has been lack of efforts towards evolving a proper succession planning for top management even after nearly five decades of evolution of public sector. The resultant effect has been gaps occurring in the appointment of Chairman and Managing Directors and Functional Directors. An analysis of continuity of tenure of these functionaries in BHEL, NTPC, ONGC and SAIL has shown intermittent gaps in their appointments. These have been represented in Charts 4.10 and 4.11.

This has led to recurring instances of temporary vacancies of Chairman and Managing Directors (CMDs) of public enterprises being given to the civil servants in the ministry. In SAIL, in spite of the PESB having sent the panel of names for the position of CMD in September 1996, in anticipation of superannuation of the CMD in November 1996, the situation led to uncertainty at the top. An Additional Secretary and Financial Advisor in the Ministry of Steel and Mines had been made the officiating chairman of the enterprise. This was a violation of an office memorandum circulated by the Department of Expenditure in the Ministry of Finance according to which “.... It would not be appropriate for Financial Advisors to hold additional charge of any administrative executive post including regular posts in the PSUs and autonomous bodies in the
Gaps in the Appointment of Chairmen and Managing Directors in Four Enterprises (in months)

<table>
<thead>
<tr>
<th>Year</th>
<th>NTPC</th>
<th>ONGC</th>
<th>BHEL</th>
<th>SAIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983-84</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1984-85</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1985-86</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1986-87</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1987-88</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1988-89</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1989-90</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1990-91</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1991-92</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1992-93</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1993-94</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1994-95</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1995-96</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1996-97</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Gaps in the Appointment of Functional Directors in Four Enterprises

(in months)

Years

Months
0 5 10 15 20 25 30

Years

BHEL NTPC ONGC SAIL
Ministry/Department to which he (FA) is attached as this is likely to impair his freedom in tendering financial advice.

A Parliamentary Standing Committee on Industry in its seventeenth report commented that "the post of chief executives in many of the PSUs, including director level posts have been lying vacant for months and those undertakings are being looked after by the joint secretaries of the ministry concerned as additional charge. The perception of experts and skilled professionals and that of the bureaucrats is always different. As a result, growth of the companies and their competitiveness is being compromised. If the public sector has to be made commercially viable and strive towards excellence, it is necessary that immediate steps should be taken to delink the bureaucracy from professional jobs."

The recommendations of the committee have been considered by the government and it has been laid down that temporary vacancies of CMDs may be filled by giving officiating charge to the senior most functional director on the board of the enterprise concerned. This has been violated frequently as in December 1996, in NTPC, a Joint Secretary Ministry of Power, had been given temporary charge of NTPC as CMD in the absence of the latter. This had been despite the fact that NTPC has five functional directors on the board and the Department of Public Enterprises clearly stipulates that the senior most functional director should hold charge in the absence of a regular chairman. There is a declared policy of the government directed towards building managerial talent at the top level. But frequently this has been violated. "The effect is negative as the people are there for a short period. sometimes joint secretaries are acting as chairman, they will neither have the time nor the commitment. If the position is kept vacant for a long period of time the effect is adverse. Uncertainty kills the whole purpose of functioning."50

In these enterprises no efforts have been made to have proper succession planning for top management as the responsibility for this vests with the administrative ministry. There has been no initiative on the part of the concerned administrative ministries. Though the chief executive can contribute towards formulating a plan for executive succession there has been lack of initiative in this direction. Hence always age and seniority — these two key factors have reigned supreme for top positions. The chief executive is more concerned about the present performance of enterprise than preparing the organisation for the future for which there is hardly any time. The only encouraging feature that has been observed with regard to these enterprises is the preference given to persons functioning as functional directors to head the organisation. There is an increasing trend visible towards mobility of people from within the organisation to occupy top management positions, thereby reducing dependence on deputationists. In the organisations under study out of twenty three chief executives, twelve have been from within the organisation.

The extent of the contribution of the top management team to the enterprise’s efficiency depends as much on their tenure as on their intellectual abilities and experience. The Computer Maintenance Corporation of India (CMC), for example, has had the same chief executive for eight years out of twelve years of its existence. This has helped build a culture, pursue strategies and plans and hold the management accountable for enterprise’s performance. Similarly Johore State Economic Development Corporation of Malaysia has had just two chief executives in its seventeen years history.

The chief executive of General Electric Corporation (GEC) who headed the organisation for nearly eighteen years was considered by some as a miracle man, while some looked upon him as a heartless maniac. The long tenure enabled him to effect four restructurings of the enterprise.

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Remuneration of Board Members

Public sector enterprises have for long been claiming to be the model employers. A certain credibility has been built in the public sector enterprises in terms of periodical revision of salary structure.

The salary scales (revised as on 1.10.1984) for top managers and chief executives have been:

1. Rs. 4,500 - 5,000
2. Rs. 4,000 - 4,500
3. Rs. 3,500 - 4,000
4. Rs. 3,000 - 3,500

These were revised in January 1987 as follows:

<table>
<thead>
<tr>
<th>Revised</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schedule A Companies  (Very Large)</td>
<td>Rs. 4,500 - 5,000</td>
<td>9,000 - 10,000</td>
</tr>
<tr>
<td>Schedule B Companies  (Large)</td>
<td>Rs. 4,000 - 4,500</td>
<td>8,500 - 9,500</td>
</tr>
<tr>
<td>Schedule C Companies  (Medium)</td>
<td>Rs. 3,500 - 4,000</td>
<td>7,500 - 8,500</td>
</tr>
<tr>
<td>Schedule D Companies  (Small)</td>
<td>Rs. 3,000 - 3,700</td>
<td>6,500 - 7,500</td>
</tr>
</tbody>
</table>

Another revision of pay scales which took effect from 1 January, 1992 enhanced them to:

<table>
<thead>
<tr>
<th>Revised</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>'A' Companies</td>
<td>Rs. 9,000 - 10,000</td>
<td>13,000 - 15,000</td>
</tr>
<tr>
<td>'B' Companies</td>
<td>Rs. 8,500 - 9,000</td>
<td>12,000 - 14,000</td>
</tr>
<tr>
<td>'C' Companies</td>
<td>Rs. 7,500 - 8,500</td>
<td>10,000 - 12,000</td>
</tr>
<tr>
<td>'D' Companies</td>
<td>Rs. 6,500 - 7,500</td>
<td>9,000 - 10,500</td>
</tr>
</tbody>
</table>

It is generally felt that while liberalisation has brought in attractive packages for top executives in other sectors to spur efficiency, there has been
lack of perceptible measures by the government to motivate the management of public sector enterprises. As shown in Chart 4.12, quite a significant number of board members in the enterprises have considered the present remuneration inadequate. The system of Memorandum of Understanding which constitutes the basis for assessing the performance and determining the quantum of incentives to personnel at micro level has been ignored at the top management level. The present dispensation does not recognise any reward to the top management for its effective leadership role. In recognition of this lacuna, the Satyapal Committee proposed an incentive scheme for the top management.\textsuperscript{52} The determination of the incentives to the chief executive and functional directors, according to the committee has to be the privilege of the shareholders at the Annual General Meeting. It had made a case for rewarding the part-time directors of the enterprise, though not fully engaged in the day-to-day activities of the enterprise, can still make a significant contribution to the performance of the enterprise and assumes responsibility for important board decisions. A large majority of respondents as indicated in Chart 4.13 have expressed the need to link remuneration of board level executives with the performance of enterprise.\textsuperscript{53}

One of the important features that distinguishes efficient from inefficient public sector enterprises, is the salary and other benefit incentives reflecting the market conditions. The French car manufacturing company, Renault was a highly successful public enterprise and among the important contributory factors for its success was the system adopted by its famous manager Dreyfus for recruiting able, subordinate managers and paying them more than he made.\textsuperscript{54}

\textsuperscript{52} The Satyapal Committee was set up in 1994 by the Department of Public Enterprises to suggest a MOU linked incentive scheme to the employees of Public Sector Enterprises including top management.

\textsuperscript{53} The government has appointed a committee headed by Justice S. Mohan to look into the salaries, allowances and service conditions of officers and senior officers in public sector enterprises. The report is expected to be submitted by March 1998. The rationalisation is said to be in line with the government’s policy to give more freedom to the public sector.

Satisfaction Level of Board Members with the Present Remuneration

- SAIL
- El Adequate
- Inadequate
- Average

- NTPC
- ONGC
- Enterprises
- BHEL

Percentage

- Adequate
- Inadequate
- Average

 Enterprises
Perception of Board Members on the Need to Link Remuneration with the Performance of Enterprise

![Bar Chart]

- Enterprises:
  - BHEL
  - NTPC
  - ONGC
  - SAIL

- Percentage:
  - Yes: 78.57%
  - No: 20.00%
  - Cannot Say: 1.43%

Legend:
- □ Yes
- □ No
- ◯ Cannot Say
Another Indian private sector company Escorts Yamaha recently has announced a profit sharing plan for the board directors to ensure a focused and dedicated involvement of the company director in the affairs of the company.\textsuperscript{55}

The Disinvestment Commission considered the remuneration of PSU chief executives as significantly lower than that for the corresponding position in the private sector. In order to attract and retain talent for these important posts, it considered necessary to raise the salary of CMDs in Schedule A enterprises to at least Rs. 50,000 per month. The salaries of officers in Schedule B and C are also to be raised. Further, the top management should be entitled to incentives and bonuses linked to performance parameters.\textsuperscript{56}

An analysis of the board of directors in the four enterprises bring out different facets of public sector management.

- **Composition of the Board**

A considerable majority of respondents in four enterprises as indicated in Chart 4.6 have considered the present strength and composition of the board as adequate to the requirements of the enterprise. They perceived no change in the board composition. The board has been considered to be in possession of sufficient expertise represented by the functional directors. An increase in functional areas on the board was not perceived to be essential. Normally, any creation of a new functional area on the board has remained the prerogative of the concerned administrative ministry. The initiative for this always emanated from the ministry that would be put to the board. It has been observed that certain key functional areas are not represented on the boards of these enterprises. The important functional area of corporate planning has not been given representation on any of these boards except in the Steel Authority of India Limited. The area of vigilance has been represented on the board of NTPC.

\textsuperscript{56} Disinvestment Commission. op. cit.: 30.
recently, with the chief vigilance officer having been made a member of the board.

- **Non-Official Directors**

  The non-official directors are nominated by the government to give representation to certain specific interests like industry, business, trade unions, etc. It has been observed that these constituted only 4 per cent of the board’s total strength in the four enterprises. No non-official director has been appointed on the board in these enterprises except in BHEL and SAIL. But in both these enterprises also, the appointments have been made at the behest of the concerned political executive. The expertise of the non-official director has not been of relevance adding to the board’s strength. Irrespective of the expertise that is needed by the enterprise under the garb of non-official directors, it had been the exercise of minister’s prerogative to appoint any person of his choice.

  To minimise this, the search committee appointed by the government recently to identify persons to be appointed as non-official directors in Navaratna enterprises had laid down four criteria. They are the prospective non-official directors should be i) eminent persons in their fields of activity ii) they should have no conflicts of interest with the PSU iii) they must have time to devote to the PSU and iv) they should preferably be under the age of 65 years.\(^5\)

  A significant development in this direction is the names of four eminent corporate persons to be appointed as non-official directors in BHEL has been sent by the search committee to the Ministry of Heavy Industry. They include the managing director of Tata Steel, a former CII president, the ex-EXIM bank chair person and a former chairman of the Cochin refineries.\(^6\)

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57 *Business India*. 17-30 November, 1997: 140.

58 *Times of India*. 1 December, 1997.
In SAIL, besides the already existing non-official director representing the trade unions, recently, an economist from the Indian Statistical Institute has been inducted as a non-official director on the board.

• Worker Representation on the Board

In keeping with the slogan ‘now that democracies are industrialised, industries must be democratised’, varying experiments have been made to involve workers in the running of public enterprises.\(^{59}\) This has been ensured in some countries by having representatives of workers on boards. In India this experiment has met with very little success, despite the government making a policy pronouncement in 1977, that workers’ participation in management was to be introduced at all levels in public sector enterprises. This policy has remained only on paper and could not be implemented in public sector enterprises.

There is no representation of labour on the board in any of these enterprises except in SAIL where it is said to have been done at the instance of the concerned minister who was inclined towards the labour movement. But here also, the worker representative on the board is not amongst the workers of the enterprise. In the capacity of being a trade union activist, the member is said to represent one of the trade unions in the country.

• Government Directors

All the enterprises have at least two officials from the respective supervisory ministries as government directors. This has been in spite of the government’s pronouncement of reducing government directors to one.

• Size of the Board

The size of the boards of the four enterprises varies from ten to eighteen members. This does not establish any correlation between the strength of the

\(^{59}\) M. Aboud. op. cit.: 118.
board and the investment of the enterprise. The composition and relevant expertise the board has, is said to definitely play an important role.

- **Tenure**

A study of the tenure of the full-time board members of the enterprises during the period 1985-86 to 1996-97 shows that nearly 22 per cent of the chairmen had been associated with the board for more than two years. Around 32 per cent of functional directors had served the board for a period exceeding three years, while 11 per cent of them have been on the board for a period of four years. About 17 per cent of them were on the board for more than five years. A significant majority of respondents as shown in Chart 4.9 have favoured a five-year tenure as board members as optimum period.

There has been lack of succession planning in the enterprises for the top management. The administrative ministries have not taken adequate steps in evolving a proper succession planning for the top management of enterprises. This has often led to gaps in the continuity of appointments of board members. This has given rise to situations where civil servants in the concerned administrative ministries become the CMDs for short tenure. Yet, there is an increasing trend of persons from within the organisation occupying board level positions. During the same period in the four enterprises under study out of twenty chief executives, twelve have been from within the organisation.

- **Board Meetings**

These enterprises are governed by the provisions of the Companies Act with regard to convening of board meetings, according to which at least four board meetings are to be held in a year. The required quorum for the board meeting is one third of the total strength of the board or two directors whichever is higher. But in general, the boards are said to meet quite frequently to cope
with the urgency of the matters, which require the board’s authorisation. Hence
the number of board meetings in a year varies between ten to fifteen.

- **Management Committee**

  Apart from one organisation, i.e. SAIL, the remaining three enterprises
  have management committees functioning below the board level. This is said to
  bring about coordination among various disciplines/activities of the enterprise
  and in establishing interlinkages. It also provides a forum for discussion of policy
  matters which go to the board level.

  The constitution, tenure and remuneration of the board of directors still
  continues to be a weak point in public sector management. The present times
  are witnessing rapid changes taking place under the garb of liberalisation,
  deregulation, entry of multinationals and so on. In consonance with this,
  modifications in board management are being considered. Mere structural
  solutions do not yield results. This needs to be reflected in the functions to be
  discharged by the board. In theory the board is the repository of power and
  authority but in the public sector, its functions are bound by innumerable
  directives issued by government, various approvals and so on. The government
  in the capacity of the majority shareholder of the public sector enterprises wields
  enormous influence. What is really required is a change in the government’s
  attitude towards the entire public sector. A positive interface is needed between
  the government and board that get reflected in its multifaceted functions.