Chapter VIII

SUMMARY AND CONCLUSIONS

The public sector in India which had a tremendous growth since independence still continues to hold a significant niche in the corporate scene. The present wave of liberalisation has retained certain core sector areas to the public sector. Basically public sector enterprises emerged in many countries including India to meet the national aspirations of rapid industrialisation, augmenting state revenues, provide avenues for employment, import substitution, etc. The massive growth of enterprises over the last five decades has been made possible, because of successive five year plans and the thrust given by the industrial policy resolutions. But in the process, we have lost sight of some of the key facets of public enterprise management. The result has been that irrespective of the increase in the number of enterprises, the performance has not been up to the mark which invited a lot of criticism. A host of factors such as control by multiple agencies, conflicting objectives, unprofessional management etc., have marred the effective performance of the enterprises.

In the Indian public sector, the board of directors in spite of being the top management body received inadequate attention in all aspects such as the composition, selection, appointment, tenure and remuneration. It has been functioning with limited autonomy, prone to frequent governmental interference. The various committees and commissions and academia, from time to time, examined major issues pertaining to the top management. These exercises although quite comprehensive and innovative have not attracted the government’s attention.

The 1990s ushered in changes globally in the form of liberalisation favouring the rolling back of the state from several spheres. In India also, with the New Industrial Policy declared on July 24, 1991, industry had become the focus of liberalisation. These changes have in a way prompted the need to bring
out transformation in the management of industries and enterprises. In addition to this, the state-owned enterprises in many parts of the world are introducing innovations in their governance systems. The board of directors is the statutorily created organ through which a company or corporation functions. The company being an artificial person, intangible, invisible and a legal fiction, the board in the capacity of being the controlling mind of the company has a significant role to play in the corporate governance.

The board of management being the key to corporate governance, its composition and style of functioning, should reflect the changing circumstances. The dynamics of liberalisation are multiplying the demands placed on management. In response to this, management has to be flexible, less hierarchical, innovative and more specialised. This in turn is going to exert pressures on corporate boards and directors. The Industrial Policy of 1991 reiterated the need to make the boards professionalised and entrust them with adequate powers. This has been viewed as one of the prerequisites to infuse the required dynamism in the public sector. Not much headway has been made in the last six years, though recently, some beginning seems to be on the anvil.

An analysis of growth of board level positions over the past ten years indicates a very marginal increase in the strength of board members of the public sector enterprises. The strength of whole time directors which stood at 281 in 1984-85 in 221 enterprises increased to 396 in 1995-96 in 210 enterprises. This indicates that some enterprises still continue to function without whole time functional directors. This does not correspond to the four fold increase in investment in the public sector in the last ten years. Further this is coupled with frequent discontinuities in the appointment of board level personnel. The emergence of a new managerial revolution globally should lead to a rise of professional directors and managers within the enterprise.
The four enterprises selected for study — Bharat Heavy Electricals Limited, National Thermal Power Corporation Limited, Oil and Natural Gas Corporation Limited and Steel Authority of India Limited are companies incorporated under the Companies Act. While all have been set up under a company form of organisation since inception, ONGC was constituted as a statutory corporation under an Act of Parliament. It has been transformed into a company in 1992, with a view to facilitate its functioning with flexibility. The government in 1997, had identified nine select public sector enterprises whose performance over the past five years has been high in terms of sales, profits and turnover and conferred them the status of Navaratna enterprises. They have been granted financial and functional autonomy. The restructuring of their board of directors had assumed an important aspect in this exercise. These four enterprises are amongst the Navaratna enterprises.

On the basis of the analysis of data collected, and interpretation of information generated from the study, conclusions have been drawn and suitable suggestions are made.

The Efficacy of the Public Enterprises Selection Board (PESB)

i. The PESB is the body entrusted with the task of selection of top managerial personnel. It has been constituted in 1974 with a stipulation that the chairman and members shall be persons who have had a long and distinguished career in the management of public or private corporations and with a proven record of achievements in the fields of personnel, finance, production or marketing. The PESB's three full-time members were to be a distinguished former chief executive of a public sector enterprise, a distinguished behavioural scientist with experience in selection of top management personnel and a distinguished former civil servant with experience in management of public sector enterprises in areas of finance, industry or economic affairs. An evaluation of the
composition of the PESB over the years has shown that mostly these criteria have been overlooked. The board now comprises only retired civil servants who after their superannuation from government, occupy coveted positions in PESB. Though the board is to comprise a distinguished behavioural scientist, it has been devoid of experts in this area. The chairman of the PESB has invariably been an IAS officer. The other two members at present are also from the IAS and the third member is the former CMD of Hindustan Zinc Limited.

ii. The frequent discontinuities in tenure of members is said to affect the functioning of the PESB. It has remained without a chairman for long periods of time. In 1993-94, it functioned without a chairman and two members for nearly two years. In 1994, the board had just one member who conducted 167 meetings and made recommendations for 49 chief executives and part-time chairmen. The public sector enterprise system did not have the benefit of a full fledged PESB with the prescribed qualifications.

iii. Of late, the PESB seems to be losing its efficacy as the government has also been showing some indifference towards it by overruling some of its recommendations. But the non-acceptance of the PESB’s recommendations are seldom divulged by government. The PESB is expected to bring out the details of these in its report submitted to government every year. But such reports never find their way to the Parliament.

iv. It is essential to arm the PESB with adequate legal and constitutional authority so that its recommendations become obligatory for implementation.

v. In addition to this, it has to be provided sufficient autonomy. The CII in its Report on Public Sector Reforms and Restructuring favoured PESB being
conferred a status similar to that of the UPSC for the selection of Chief Executive Officers and Directors of Public Sector Undertakings. The government should accept the recommendations of the PESB and any deviations should be tabled in the Parliament. The removal of the Directors and Chief Executive Officers should be effected only after getting the PESB’s concurrence. It made a case for attention being focused towards professionalising the PESB instead of it being dominated by retired government officials. The Disinvestment Commission also favoured the strengthening of the PESB by making it broad based with induction of professionals and management experts.

vi. The present selection process of the chief executives and functional directors by the PESB needs to be streamlined. The resulting vacancies need to be filled up reasonably ahead of time without any delay to prevent discontinuities in appointment. The PESB should be granted adequate authority to send the empanelled names of persons for appointment to the boards, directly to the Appointments Committee of Cabinet instead of sending to the concerned ministries and departments.

Composition of Board

i. An overwhelming majority of board members of four enterprises, comprising 64.29 per cent, 60.0 per cent, 72.72 per cent, 70.59 per cent in BHEL, NTPC, ONGC and SAIL respectively, perceived the existing strength and composition of the board as adequate. The board has been considered to be in possession of sufficient expertise represented by the functional directors.

ii. In addition, any creation of a new functional area on board has been mostly a prerogative of the concerned administrative ministry. Frequently the initiative in this regard is said to emanate from the ministry that would be put up to the board of the concerned enterprise.
iii. The board of directors in all major public sector enterprises need to have certain key functional areas headed by full-time directors. These key areas have differed from enterprise to enterprise. One such area is corporate planning. Certain activities like identification of thrust areas of opportunities, analysis of investment outlays, assessment of human and organisational resources, techno-economic analysis of plans drawn up, etc., assume importance in all enterprises. This area has not been represented on any of these boards except in the Steel Authority of India Limited. Hence, it will be advantageous for the enterprise to have corporate planning along with other functional areas on the board.

iv. The board has to assume the key responsibility of evaluating its existing composition in tune with changing needs. It needs to take the initiative of recommending to the concerned administrative ministry regarding the creation of any new functional area on the board.

**Broad Basing the Board of Directors**

i. The size of the board of an enterprise is said to influence its functioning and the effectiveness of the discussions in the board. The strength of the board of directors of enterprises under study varied from nine to eighteen members. No correlation could be established between the size of the board and the investment of the enterprise. In general, the size of the board is said to be determined more by the extent of interest representation. In these enterprises the boards seemed to be devoid of any such representation. The composition of interest representation on the boards indicates a strong predominance by whole time functional directors. They constitute nearly 64 per cent of the strength of the board. The representation of the government nominees is around 20 per cent, while non-official directors constitute an insignificant proportion of only 4 per cent. The strength of the board is represented mainly by the chief
executive, functional directors and government directors. Only BHEL and SAIL had a non-official director each. But their expertise could in no way add to the strength of the board. In both the enterprises, the appointment of non-official directors has been done at the behest of the concerned ministers without due regard to their expertise. The board has the capacity to identify persons who can add value to the board and bring them in. But the overriding powers of the political executive suppresses the initiative of the board.

ii. Amongst the four enterprises, the board of the Steel Authority of India Limited is largest in terms of size. It has the Managing Directors of all the four steel plants on the board. In the remaining three enterprises, the heads of regions under which various projects function are not members of the board. In these enterprises, to bring about coordination among various disciplines and activities, and in establishing linkages, an management committee has been constituted which (also known as executive committee) functions below the board level.

iii. In BHEL, NTPC and ONGC, the activities of the enterprise in different regions are entrusted to the executive directors of the regions. To facilitate better execution of policies formulated at the top down the line, the executive directors of the regions can be included on the board of directors.

iv. A regional management board may be created at each region headed by the concerned executive director. Matters pertaining to policy issues of projects at each region, their execution and appraisal could form the focus of this board. These could be taken to the executive committee chaired by the Chairman and Managing Director for placing before the board.

v. The government permitting the Navaratna public sector enterprises the autonomy to float joint ventures and subsidiaries, in Steel Authority of
India Limited, different steel plants can be constituted as subsidiaries with an independent board.

vi. The experiment of the reorganisation of ONGC in 1984 had been aimed at centralising policy formulation and decentralising implementation. But the delegated authority at the regional level could not be exercised as many of the line function decisions were required to be referred to headquarters. Hence a better way to circumvent this is to form regional subsidiaries with well defined linkages with the main company.

Non Official Directors

i. The directive of the Department of Public Enterprises in 1991, that at least one-third of the total strength of the board should be experts in the capacity of non official directors has not been implemented in the four enterprises under study. Some board members during informal interviews expressed reservations on having non official directors on the board. Since matters pertaining to the organisation which are beyond the chairman’s powers are brought and discussed in the board, it has been perceived that their expertise could be utilised in a separate forum outside the board.

ii. It has been observed that in BHEL and SAIL two non-official directors have been appointed, but in a way arbitrarily, at the behest of the political executive of the concerned administrative ministry. Irrespective of the expertise that is required by the enterprise, under the garb of non-official directors, it becomes the minister’s prerogative to appoint any person of his choice.

iii. The government has recently reaffirmed its commitment towards professionalising the Navaratna boards by induction of at least four non official directors who have an “impeccable stature and background”. But
the power of their appointment vests with the concerned administrative ministry. The final selection by the ministry will be based on the recommendations of a search committee. It comprises the chairman PESB, secretary of the concerned administrative ministry, secretary of Department of Public Enterprises, and some eminent persons to be nominated by the Industry Minister. This search committee has laid certain criteria pertaining to the appointment of non-official directors in Navaratna enterprises. This includes the persons should be eminent in those fields of activity related to the enterprise, should have no conflicts of interest with the PSU, must have time to devote to the PSU and should preferably be under the age of 65 years. The committee is said to have sent a panel of names in this regard to the concerned administrative ministries of BHEL, NTPC and SAIL.

iv. The directive of the Department of Public Enterprises issued to the Chief Executives of Navaratna companies has now made it mandatory for boards to be restructured initially by induction of non-official directors as the first step before the exercise of the enhanced delegation of authority. This is said to have led to consternation amongst some top management members of Navaratna enterprises. The logic of having outside directors for delegation and empowerment is being questioned. There is a feeling that their presence is being sought to sanctify the process of decision making by the board.

v. In Britain the responsibility of identifying persons as non-official directors has been done by associating professional organisations like PRONED. It had contacted select people who were executives on the boards of good companies and placed them on a panel of available potential non-executive directors. In India also the responsibility for identifying experts in a particular field suitable to the enterprise needs to be vested with the enterprise concerned that does the task in collaboration with professional
associations like the Confederation of Indian Industry, FICCI, ASSOCHAM or the Indian Institutes of Management (IIMs). The comprehensive panels for non-official directorships can be drawn up by professional associations. The board has the capacity to identify persons who can add value to the board.

**Government Directors**

i. They are associated on the board of the enterprises in the capacity of representatives of shareholders i.e. the government. Their dual role has representatives of government and as part of the corporate body of the enterprise assumes complexity. This often is said to have led to situations with their taking a different stance in the ministry on the policies of enterprise, contrary to what has been agreed to in the board meeting.

ii. In spite of a majority of respondents comprising 63.24 per cent of board members having been not in favour of the continuance of association of government directors on the board, this cannot be dispensed with since the government share holding in the enterprises has not come below 51 per cent.

iii. The board expects the government directors to exhibit a broader understanding of problems they are facing and internalise the issues of the enterprise. Nearly 72.06 per cent of the board members have expressed the need for government directors to be supportive to the enterprise.

**Tenure of Board Members**

i. 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 organisational effectiveness. Uncertainty of the tenure of top management has an effect on the policies, long term plans, programmes of the
enterprise and also leads to blurring of the top management's accountability.

ii. The Articles of Association of the enterprises under study do not prescribe the terms of appointment including tenure of the chief executive and full-time functional directors. Their letter of appointment lays down the tenure of office as five years or till they reach the age of superannuation, whichever is earlier. Due to the time consumed in the entire selection process, by the time an incumbent from within the organisation assumes the board level position, the person is left with a tenure of two years or so. There are very few who continue to serve the full tenure of five years. The government though has stipulated the normal tenure of board members as five years, in practice it has been only 2-3 years.

iii. The analysis of tenure served by the chairmen of the four enterprises reveals that 22 per cent of them have been on the board for a period exceeding two years. While 17 per cent of them have even served for a period beyond five years. NTPC, ONGC and SAIL had three chairmen whose tenure exceeded five years.

iv. Similarly, the analysis of tenure served by functional directors indicates that quite a proportion of them i.e. nearly 32 per cent of them served the board for a period exceeding three years. Eleven per cent of them were on the board for a period of more than four years. Still there have been quite a few to the tune of 24 per cent, who were on the board for one to two years.

v. The perception of board members of four enterprises pertaining to suitable tenure indicated preference towards a period of five years. A large majority of board members comprising around 71.43 per cent, 66.66 per cent, 68.18 per cent and 76.47 per cent, in BHEL, NTPC, ONGC and SAIL respectively considered five years as optimum tenure.
vi. A positive trend observed in these enterprises is persons from within the organisation, moving up the ladder occupying top management positions, thereby reducing dependence on deputationists. In these organisations, over the period of ten years, out of twenty-three chief executives, twelve had been from within the organisation.

vii. Succession planning is a very important feature of an organisation’s personnel system. There is no succession planning for top management in these enterprises. Age and seniority are the key factors generally considered for top positions. The initiative for developing a succession plan has been taken neither by the administrative ministry nor the chairman of the enterprise. The resultant effect being frequent recurrence of gaps in the appointment of Chairman and Managing Directors (CMDs) and functional directors of enterprise. This in turn has given rise to the practice of assigning temporary vacancies of CMDs to the civil servants in the concerned administrative ministries. This is despite the government directive that officiating charge in such cases be given to the senior most functional director on the board of the concerned enterprise. There have been such instances in NTPC and SAIL, during the period under study.

viii. There is need for a reasonably stable tenure for top management. This is one of the key factors that determines the extent of the contribution of the board to the efficiency of the enterprise, along with their intellectual abilities and experience. To ensure the board member’s commitment to the company’s prosperity and continuity in policies, their tenure should be at least five years or 58 years of age whichever is higher.

ix. The criteria adopted by PESB for appointment of board members need to undergo a change. As of now, PESB considers those incumbents also who have not exceeded the age of 56 years at the date of vacancy. Considering the long delays caused in the process of selection and appointment of board members, it would be advantageous, if those
persons whose age is 52 years at the time of vacancy are considered by the PESB.

x. A proper succession planning needs to be developed for the board positions by the Chief Executive (CMD) in concurrence with the concerned administrative ministry. This would prevent the practice of joint and additional secretaries from the administrative ministries to take charge of the position of chief executive of enterprises whenever the need arises.

**Remuneration of Board Members**

i. An attractive remuneration package with necessary incentives is very essential to motivate the management of public sector enterprises. 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. The MOU which constitutes the basis for assessing the performance and determining the quantum of incentives for personnel at the micro level has been ignored for the top management. The present dispensation does not recognise any reward to the top management for an effective leadership role. Nearly 57.15 per cent, 53.33 per cent, 54.55 per cent and 52.94 per cent of the board executives in BHEL, NTPC, ONGC and SAIL respectively have considered the present remuneration levels in the enterprises as inadequate.

ii. Satisfactory remuneration and other monetary benefits are one of the important features that distinguishes efficient from inefficient public sector enterprises. The need to link remuneration with the performance of the enterprises has been strongly felt by a significant majority of the board members. Around 78.57 per cent, 73.33 per cent, 77.27 per cent and 76.47 per cent of board executives in BHEL, NTPC, ONGC and SAIL respectively perceived this requirement.
iii. The part-time non-official directors at present are not entitled to a higher sitting fee. According to the guidelines issued by DPE, the fee has been fixed at Rs. 250/- per day in case of Schedule ‘A’ companies. In the case of Schedule ‘B’, ‘C’ and ‘D’ companies, it is Rs. 200/-, 150/- and 100/- respectively. This is extremely low compared to the private sector.

iv. At present there is no effective or proper system of assessment of the performance of board level executives. The PESB assesses the performance of chief executives at the end of one year’s probation and on completion of the initial tenure of five years. This is also done by the PESB at the time of extension of their tenure beyond five years. Except this, no annual review of the performance of chief executives is done.

v. The emoluments of board executives should be linked with the performance of the enterprise. This needs to be supplemented by a proper system of performance evaluation of board members. A parity of pay and perks of public sector executives with those in the private sector is required in tune with the liberalisation. The sitting fee of non-official directors needs to be enhanced to at least Rs. 1000/- to Rs. 1500/- per sitting.

Immunity of Board Members from Legal Suits

i. The public sector being treated as ‘state’ under Article 12 of the Constitution, brings the employees including board members within the net of vigilance. This acts as a severe deterrent to independent decision making by the board. In addition, this has led to a growing hesitancy shown by board members in taking decisions for fear of questioning by the vigilance organisation.

ii. This can be reduced only with the government disinvesting upto 51 per cent of equity, which would remove the public sector undertakings from the purview of Article 12 of the Constitution.
iii. The Confederation of Indian Industry in its Report on Public Sector 
Reforms and Restructuring has suggested the constitution of a committee 
consisting of a Chief Executive Officer of a major private sector company, 
a chief executive officer of major public sector undertaking, an eminent 
management consultant and a chartered accountant to go through cases 
of alleged corruption against the CEO of the PSU. This committee would 
determine whether the alleged act was a normal commercial transaction, 
a bona fide error of judgement or a mala fide act of attracting criminal 
proceedings. In case this committee holds that the act was not mala fide, 
the CBI should not proceed against the PSU functionary.

iv. The Disinvestment Commission also suggested the constitution of a pre 
investigation board to deal with cases of vigilance.

v. The system of vigilance/disciplinary proceedings needs to be made 
transparent.

Restructuring of the Board

I. The constitution of a two-tier board based on the principle of separation of 
function of supervision from management is considered one of the key 
issues in restructuring the board of directors. The setting up of two types 
of boards - supervisory and management in the Indian public sector 
requires legislative action on the part of government. In addition, clear 
provisions need to be laid down regarding the appointment, tenure, 
compensation and authority of members of the two boards. Hence in the 
context of the legal, economic, political and economic scenario, a unitary 
board which is balanced is considered the most appropriate.

Memorandum of Understanding (MOU)

i. It is the instrument that defines the relationship of the public enterprise 
with the government, i.e. the administrative ministry and is said to clarify
their respective roles in order to achieve better performance. The MOU system in public sector enterprises which was introduced in 1987-88 covering only four enterprises over the years has brought nearly one hundred enterprises within its ambit. Every MOU spells out the corporate mission, objectives and annual targets of the enterprise. Each target is assigned a weight corresponding to its priority. More recently, the profit related criteria have been given a weightage of fifty per cent, whereas the emphasis on the "social objectives" of public sector enterprises has been scaled down.

ii. The experiment of MOU has not yielded the expected results in the public sector. One of its objectives has been to ascertain the major constraints of the enterprise in achieving the goals. But it has failed in looking into this aspect. An enterprise may not be able to achieve its goals, objectives, owing to certain constraints which the MOU has failed to take cognisance.

iii. The MOU has not made much of an impact on the autonomy of the enterprise. This has been endorsed by 57.14 per cent, 53.34 per cent, 50.0 per cent and 47.06 per cent of board members in BHEL, NTPC, ONGC and SAIL. Autonomy and accountability are the two integral aspects of the MOU system. Accountability alone has been emphasised in the overall framework within which the enterprise operates and there has been no genuine willingness to grant autonomy.

iv. The MOU has always laid nearly 60 per cent emphasis on financial parameters. It has also not addressed other issues that have an impact on the performance of enterprise such as senior managerial appointments, wage policies, compensation package, etc.

v. The MOU has been one sided with the enterprise being loaded with responsibilities without any such obligations assigned to the government. The MOU’s main emphasis has been on the financial parameters of the
enterprise and quantification of targets. Though it is said to be a two way contract, it has really not been so. It has been felt that very often the government has not kept its commitments under the MOU. Because of delays in clearance of projects, the required financial autonomy to the enterprises has not come through in many cases.

vi. The present policy of the government does not make any mention of the MOU.

vii. The Memorandum of Understanding has to undergo a thorough revamping. It instead of concentrating solely on end results in financial terms, needs to focus on aspects such as competence building, intellectual capital generation, etc.

**Multilayer Monitoring System of Navaratnas**

i. The government in principle has retained a high degree of control over the Navaratna companies, through a stringent multilayer performance monitoring mechanism. The performance assessment is to be carried out preferably on a quarterly basis by a team comprising the secretary of the administrative ministry, the chief executive of the concerned public sector undertaking and few outside experts.

ii. Another level of monitoring has been created by the constitution of an apex level committee headed by the Cabinet Secretary. This is to include the Member Secretary of the Planning Commission, Finance or Expenditure Secretary, Secretary of the administrative ministry and Secretary of Department of Public Enterprises.

iii. This indicates the government usurping the autonomy conferred on Navaratna boards by exercising monitoring through the device of high powered committees. The Department of Public Enterprises recently is said to have sent a communication to the Navaratna enterprises
requisitioning for details of investments and joint ventures planned for the last two months period of the granting of autonomy to them.

iv. There should be an annual monitoring of enterprise by the government. The monitoring of the performance of enterprise from time to time is to be primarily the responsibility of the board.

The public sector definitely deserves a break from government control. The government still continues to be its largest shareholder. The process of disinvestment has not made any difference in the functioning of the public sector. The reason being the government does not intend to maintain an arms-length relationship with the enterprises. The devolving of autonomy to certain enterprises has in built checks and balances. This has been made clear by the Industry Minister recently that even though public sector enterprises had been given financial, technical and operational autonomy, the units would not be allowed to venture into adventurous expenditure.1 It is quite evident that there is no change in the government's attitude towards public sector enterprises as it is marred by suspicion and mistrust. In this situation, any amount of reengineering will prove futile until there is transformation in the government's attitude towards public sector enterprises. Till this takes place, the so-called autonomy said to be devolved on certain enterprises would just remain on paper which might have a demoralising effect on the public sector.

1 The Hindu. 13 November, 1997.