State intervention in economic activities has taken the form of state-owned or public sector enterprises in both developed and developing countries. In many countries, especially those in which a robust private sector was non-existent, the public sector played a crucial role in industrial development. The public sector still continues to be a strong and vibrant component of the Indian economy. In an economy which has been predominantly agrarian in nature, the contribution of the public sector in building up infrastructure facilities like railways, power generation and telecommunications as well as in the development of core sectors like steel, coal and fertilisers has been quite phenomenal. From Rs. 29 crore in five central public sector enterprises in 1951, there has been a steep increase in investment to Rs. 178,628 crore in 243 enterprises at the end of March 1996. But in the process, entrusted with multiple and ambiguous objectives, numerous stakeholders and public accountability, the enterprises had become a drain on the exchequer.

The 1990s ushered in changes globally in the form of liberalisation with 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. The delicensing measures, opening entry to the private sector in areas earlier earmarked for the public sector and easing of the restrictions on raising capital both at home and abroad, form part of industrial reforms. The extent of competition has also increased. These variations have made transformation in the management of industries and enterprises imperative.

1 Out of 243 Central Public Enterprises, four enterprises are under construction.
In the rapidly diversifying global market, with all facets of trade, commerce and business undergoing a radical change, the way enterprises are run and business is conducted has to undergo a metamorphosis. The issue is of governance being placed high on the corporate agenda worldwide. This study assumes importance in examining the public sector enterprise boards in the present changing scenario.

There are many facets of public enterprise management. Of vital importance to an organisation is the constitution and functioning of its higher levels of management which is entrusted with the efficient and effective working of the enterprises. Most of the public enterprises in India are incorporated as companies under the Companies Act. The company is an artificial person, intangible, invisible and a legal fiction. The board (a collective name for directors) is the controlling mind of the company.

In India, the subject of composition of boards in public enterprises was not given a serious thought for a long time. This has been partly responsible for their lacking leadership, direction and entrepreneurship. During the initial stages of the evolution of public sector enterprises in the 1950s, the bureaucracy found it to be a veritable heaven with the result that many of them in the long run suffered from the weight of bureaucracies.

During the 1950s and 1960s, the composition of the boards showed varying patterns. Some consisted mostly of government officials, while some had members of parliament, with a minister as a part-time chairman. Meanwhile, an Industrial Management Pool created in 1959 to provide managerial civil service to public enterprises met with little success. From the very beginning the various aspects of boards with regard to size, selection, tenure and remuneration of its members did not receive adequate attention.

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Several committees and commissions such as the Gorwala Committee, Krishna Menon Committee, Administrative Reforms Commission, Committee on Public Undertakings examined various issues relating to the top management and over the years very few changes have been introduced into the structure of boards. These exercises although quite comprehensive and innovative have not attracted the attention of the government.

The board of directors constitutes the top management body of a public enterprise. It is said to be involved in policy formulation, setting of objectives, strategic planning and so on. But in practice, the board’s decision-making role is generally said to be confined to processing and concretising the broad policies determined by the legislature and executive. The board has to interpret the directives, guidelines from above, i.e. government and transmit them into action by the management of the enterprise. It has been observed by some scholars\(^3\) that “It is worth examining whether our boards sit down as groups to evolve policy, take overall views, make total assessment, take decisions about new directions, or is it a case mostly of sanctions, grants, ratification? Behind that question, in both the public and private enterprises, one might ask where does the real policy emanate? Where do the controls lie? Don’t think most boards do any original thinking or act, they mostly react. In public enterprise particularly, most things lie with the government while some be with the management, little enough with the boards. In public boards, the government decides, when and how the enterprise should expand or diversify, in both cases the control group decides. Little goes to the board as open question, to be concretised after an open discussion. Equally, the boards cannot even question or discuss matters that lie in the power of those below them. Decision making is therefore, twotiered, where the power lies and where the decisions are endorsed. They are not

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the policy centered or policy structured. There is an important distinction between who decides and who agrees”.

In general, certain guidelines have been laid down by the Department of Public Enterprises regarding the size, tenure and composition of the boards, yet there is always a lapse on its adherence, the responsibility for which lies either with the enterprise concerned or its supervising ministry. Though adoption of uniform patterns is not viable, some effort can be made to evolve broad principles / concepts, which need to be kept in view in the constitution of boards.

The practice of appointing government directors on the board has become another debatable issue. The role played by them whether as a link in establishing a positive relationship with the ministry or in a way affecting the autonomy of a public enterprise is a matter of concern.

Another issue pertaining to the board of directors is to examine the continuity of the top management which is necessary for strengthening the professionalism of the boards. Frequent discontinuities in the appointment of Chairman and Managing Director and other members who are at the apex of the organisation has far reaching effects.

A proper constitution of board has a lot to do in making an enterprise board managed in a true sense. This is required, especially keeping in view the multidimensional functions of boards in present times like determination of corporate policy, corporate planning, expansion, collaboration, etc. In view of these trends only, the Industrial Policy of 1991, emphasised and focused on professionalising the boards of directors of public sector enterprises. This is the first time that an intention to restructure the boards has been formally expressed by the industrial policy statement. It is quite disheartening that never before was a serious thought given towards enhancing the quality of the top management which has remained a neglected area. This facet of corporate management received the least attention of the government. This indicates that all is not well
with the institution of board of directors which requires revitalisation. It becomes an important area to be examined as to whether the boards of a particular type constituted in the 1950s and functioning almost on the same pattern, with similar functions and very moderate changes introduced in the interim are suitable in the present environment.

Despite the overwhelming importance attached to corporate governance, no serious effort has been made towards a systematic study of boards of management in public enterprises. Though some attempts have been made during the last few decades, not much literature has been published. This is because inadequate information of any real consequence is publicly available and enterprises themselves are reluctant to divulge information. Administrative secrecy has kept this area away from the academic world. This has been one of the limitations of study, as most of the information has been considered to be confidential by the enterprises. The inordinate delays in seeking appointments with board members due to their busy schedules and their reluctance to reveal true opinion, at times posed problems to the researcher.

Laxmi Narain in his paper on 'Some Thoughts on Public Enterprise Management Research' presented at the "National Seminar of Research Workers on Public Enterprise" (1982) observed that the constitution and functioning of the boards in public enterprises provide an interesting and significant area of research. Hardly any studies have been made to study the impact of variables like politicians and civil servants as chairman, full-time chairman with full-time managing directors, etc., on the working of public enterprises. In some situations, the board is no more than a legal formality, largely devoid of its accepted functions such as establishing basic policies, deciding major financial matters, selecting key personnel and evaluating performance with a view to taking corrective action. The government is so closely involved in the operations of some enterprises that the board is reduced to the status of a legal fiction. All major policies, and financial and personnel
decisions are taken by the government, directly or indirectly. The conventional
wisdom of having the boards as the epitome of power and authority needs to be

Public sector enterprises in a way are not completely autonomous, freestanding and independent institutions but reflect the particular political economic atmosphere in which they operate. The euphoria appears to be encircling the state-owned enterprises in most parts of world towards bringing about changes in public enterprise management. It is time to take stock of the situation and circumspect the viability of such a transition. The most crucial question that needs attention is whether strengthening boards of management is an answer to ineffective public enterprise management or a counter query could be will effective boards lead to efficient public enterprise? In our quest to look for remedies, we must not lose sight of the fact that effective boards cannot suddenly lead to improved public enterprise performance. It cannot erase certain ideas, attitudes and beliefs that have got rigidified with time and experience in the minds of the bureaucracy and public enterprise managers. The board of management is only one of the components of public enterprise management, others being autonomy, government enterprise interface, motivation and morale of personnel, etc. The board’s responsibilities have widened. It’s ability to meet the interests of various stakeholders such as the customers, suppliers, creditors, government, employees and shareholders determines its effectiveness. Thus, one question that becomes extremely difficult to answer is, will bringing about changes in board composition, conferring more autonomy and powers, lead to an improvement in the overall performance of the public sector enterprises.

A system has a number of variables which are intricately connected with each other. Hence, evaluation of one would be problematic if done in isolation or exclusion of the others. Firstly, the interlinkages of the variables blur the
influence of a single or individual component on the overall outcome and secondly, the impact of board effectiveness per se is not easy to gauge. By what criteria should one evaluate board effectiveness becomes very crucial. The impact of a strong effective board on the enterprise is usually long-term and by the time the results are evident, various factors come into the picture and take the credit for outcome. Despite the indicators such as increasing profits, good industrial relations or technology absorption, it is not possible to pinpoint reasons behind good public enterprise performance or attribute its success to board excellence.

Another factor that has to be kept in mind is the application of input-output models to research studies, such approaches having been criticised by many scholars. Inputs like bringing about changes in the composition of boards, giving more powers and autonomy are considered critical to organisational inputs. Actually, if one looks at the issue in a broader perspective, loopholes behind ineffective boards could be detected in every component of the entire system.

The input-output analysis cannot be condemned altogether, because if the components are not studied individually for the fear of evaluative difficulties, we will not be able to reach a wholistic understanding of the problem. For an in-depth and comprehensive analysis of a component, such studies have to be conducted with the necessary leverage.

Objectives:

The main objectives of the study are to:

1. Examine the structure of the board of directors in public sector enterprises.
2. Study the composition, selection and tenure of board members.
3. Analyse the policy making and administrative functions of the board and its suitability to the present day privatisation moves.

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4. Critically examine the relationship between the government and the board of directors.

5. Look into the changing role of the board of directors in the present scenario making a case for its restructuring; and

6. Offer suitable suggestions for bringing in improvements in board management.

**Review of Literature**

The significant role assigned to the public sector enterprises during the 1950s, which was almost a global phenomenon, evinced a keen interest among researchers, academicians, policy makers, etc. The net result has been the vast volume of literature generated encompassing various facets of public sector enterprise management. The growth of nationalised industry in Britain during the same period resulted in examining the important theories and concepts pertaining to the functioning of these industries. The board of management being the statutorily created agency through which an enterprise functions, had become the subject of considerable attention and study.

A pioneering article by Marshall (1949) focuses on the importance of an effective board of directors as the key to program success. Reacting sharply to the recommendations of the Hoover Commission in USA on Federal Business Enterprises, which assigned advisory status to the boards, the author strongly justifies the creation of boards. An important observation made by him is that there is an important area of sub-policy and decision-making between the overall action of the Congress and the point where the administrator takes up, and it is precisely this area that a representative and resourceful board of directors must occupy for effective running of government corporations. The precise functions to be assigned to the boards are specified and it makes a case for granting the required autonomy to the board by the Congress.

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Hanson (1959) analyses the controversy of the patterns of boards, i.e. policy and functional and examines the recommendations of the Hoover Commission, Appleby's proposal on boards of directors. The desirability of setting up a board as a strong buffer between governmental authority and operational management is examined.

The various facets of the governing boards of Great Britain's nationalised industries is examined by Robson (1960). The success or failure of nationalisation is likely to depend on the quality and composition of boards more than any other single factor. Hence he makes a plea for upholding and enhancing the prestige, status, dignity of board level persons, whose leadership is essential for the success of industries and thereby the economic future of Britain.

A scientific analysis of the important economic, organisational and managerial aspects of public enterprises in India has been attempted by Ramanadham (1961). Two distinctive forms of organisation — the public corporation and joint stock company are probed. The work presents an analysis of the constitution, functioning of boards in the Damodar Valley Corporation, Road Transport Corporations and State Financial Corporations.

One of the foremost detailed works of Om Prakash (1962) examines the various aspects of governing boards of the public sector in India — their composition, size and meetings. The strength of the governing board, the study points out, to a large extent depends on the period for which it is appointed. The theory of an autonomous state corporation suggests reasonably long periods of

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tenure, for the governing board. It indicates an increasing trend towards presence of official directors on boards, while the representation of directors from within the undertaking has been inadequate. The study favours small sized boards and cautions against having persons on the boards, who cannot take an abiding interest in the performance of enterprise for want of time, willingness and competence.

A comprehensive analysis of the managerial issues of public enterprises has been done by Hanson (1962). The controversy between functional and policy boards, justification for a functional board drawing the analogy in case of the UK coal industry has been attempted. Two problems of particular importance to the composition of the board are probed, i.e. the appointment of members of parliament and the ministers, which according to Hanson are disadvantageous to the enterprise. Another facet of public enterprises, i.e. relations between the board and the executive management is examined.

The board management of public enterprise is an accepted practice in India which denotes centralised control of the undertaking with delegation of defined powers to the lower levels as a centrifugal force. Though no hard and fast rule can be laid down uniformly regarding a particular size of the board, the objective of appointing it being the efficient running of the enterprise, this needs to be ensured by a reasonable size of board for an effective and coordinated action. These aspects are highlighted by Ganguly (1963). The unhealthy practice of effecting frequent changes of the board level personnel is focused which is said to mar the continuity of policy and administration. Certain key aspects like determining a ‘reasonable’ period of tenure for board members, ensuring autonomous character of the board has been emphasised which are crucial for the efficient conduct of the enterprise.

Om Kaushal (1964)\textsuperscript{13} based on a survey of eight undertakings of government, points out the need for clarification of the functions of the board. The responsibility and authority are to be clearly defined. The board members should be of outstanding calibre and familiar with the company and industry. These qualities are generally ignored and overlooked. Leadership and the driving power of executives are considered essential for the soundness of organisations.

A large number of experiments were conducted during the 1960s, in an endeavour to devise the most convenient, efficient form of organisation for the management of government undertakings. These include, the Central Holding Board, interlocking of management boards, a board of Managing Directors, executive committees, etc. The significant aspects of these, as well as the different types of boards functioning under the ministries/departments such as the Damodar Valley Corporation, Air Corporations and Bhakra Control Board have been analysed in detail by Khera (1964).\textsuperscript{14}

Another study relating to Boards of Directors by Ishrat Farooqui (1968)\textsuperscript{15} is a major work in the field of public sector corporate management. The role, functions, composition, appointment and remuneration of board of directors is highlighted.

A seminar organised by the United Nations (1974)\textsuperscript{16} examines in great detail the functions, composition of the boards of directors of public enterprises and role of the chairman. It makes a case for the creation of functional boards. Emphasis has been laid on the two-fold functions of the board, as representing

\textsuperscript{15} Ishrat Farooqui. Macro Structure of Public Enterprises in India. Aligarh Muslim University. Aligarh. 1968.
the interests of investors and policy oriented in nature. A charter for the board containing guidelines of action has been laid down indicating the nature of delegations from government to the board. It highlights the proper constitution of the board as a crucial factor in the working of a public enterprise.

While there has been no dearth of published work in India in nearly all branches of management, corporate management has remained a somewhat neglected area. The emergence of the board of directors as the top management body in public limited companies during this period has been the main focus of study by Sengupta (1974). The development of Indian corporate management from 1913 when the Indian Companies Act was enacted upto 1970, has been reconstructed in this work. It is a combination of the legislative history of company law relating to corporate management, entrepreneurial history and a study of the corporate management pattern and its emerging trends.

Cabbot Lewis (1976) outlines the needed reforms on board effectiveness. The job of managing a modern corporation is too demanding and complex and needs effective leadership. The challenge before the boards is to channelise the energy and decisions of a strong chief executive and the balanced involvement of a thoughtful and informed board of directors. It makes a case for having independent experienced outside directors who are a great resource to the enterprise.

Managers and directors are compelled by the increasing complexity of business developments more than ever and also have to keep reasonably abreast of developments in areas other than their own. The handbook by George Bull (1977) touches on the art as well as the skills of management. The Board of Directors carry the ultimate responsibility for the quality of

management and hence the success of any company. To become a successful director, one needs a particular talent for wielding necessary wisdom, experience and judgment into the deliberations and decisions of the board. This handbook sets out to help individual directors cope with the agenda of board meetings and propose some new areas which the boards are more than likely to discuss.

An exclusive review by the Committee on Public Undertakings (1979)\footnote{Committee on Public Undertakings. Twentieth Report on Structure of Boards of Management of Public Undertakings and Allied Matters. Lok Sabha Secretariat. New Delhi. 1979.} of 179 central public sector enterprises, reveals the majority of boards being devoid of functional directors. The average tenure of the Chairman/Managing Director in many cases has been less than two years. There is a wide gap between the laid down norms for minimum and maximum strength of boards. The tendency to load the boards with non-officials leaves little autonomy with the boards. The committee makes a case for making the board broad based with varied interests and experience. It also recommends keeping government officials out of boards.

A scientific analysis of the public sector, various forms of state participation in the economy, issues pertaining to the structure and management of public enterprises has been done by Kolesov (1980).\footnote{V. Kolesov. The Public Sector: An Effective Means of Development. Sterling. New Delhi. 1980.} According to him, membership of management bodies of public enterprises generally reflects the structure of the ruling classes of the society. Also, when a board is formed from officials of one ministry, it implies that it is virtually subordinated to the minister and its job is to control the activity of the enterprise without taking any significant part in the positive solution of current problems.

One of Laxmi Narain’s major works (1981),\footnote{Laxmi Narain. Organisation Structure in Large Public Enterprises. (Case Studies of Five Major Public Enterprises). Ajanta. Delhi. 1981.} pertains to the organisation structure and planning of five large industrial organisations. These include the Fertilizer Corporation of India, Indian Oil Corporation, Bharat Heavy Electricals Limited and Hindustan Steel Limited and Hindustan Aeronautics Limited. A
comparative analysis has been made with regard to the functions and role of the head office, board of directors, chairman, the mechanisms of control and coordination, participative management and organisational planning.

A first person account of the experiences of a Chief Executive, S.M. Patil (1981)\textsuperscript{23} of one of the largest public enterprises — Hindustan Machine Tools Limited brings to light the myriad problems faced by him. The question of the functioning of boards of public enterprises has been discussed. The government directors because of their proximity to the minister virtually control the chief executive. The author's experience with the nominees on the board from the private sector who provided constructive and pragmatic suggestions has been quite useful to the enterprise. The top executives of the corporation finding themselves a place on the Board of HMT is considered a pragmatic step.

Much has been said about the functions and responsibilities of the board of directors of an enterprise. However, minimal attention has been paid to the actual structure of the boards and its involvement in top level policy making. This aspect has been studied by Gideon Chitayat (1981)\textsuperscript{24} The paper examines whether greater involvement of the boards in directing top executives of companies leads to the effectiveness of boards. The sample for the study consists of 35 boards of 16 companies in the private sector, 14 state-owned companies and 5 of mixed ownership companies. The organisational structure of the boards is found to be highly formalised and defined by a very detailed law. It reveals that the "optimum" size of a board depends to a large extent on the level of involvement of individual directors, their skill and knowledge, proper compensation package to directors to attract capable persons.


The functioning of the board of directors is most significant as far as the working of central and state public sector undertakings are concerned. The boards of state public sector undertakings are not balanced in terms of professional expertise. The position of the Chairman has been segregated from that of the Managing Director. Umesh Singh (1983)25 makes a case for active involvement of the board in policy formulation, objective setting, strategic planning and so on. They should be able to take independent decisions so that they are able to evolve a proper policy, set objectives and exercise effective control on the performance of the company to make it a success.

The major aspects of board room practices in the Indian context by Chakraborty (1983)26 reflect upon a wide range of issues that bear on the effective working of the board of directors in the public and private sectors. These include board structure, company performance, role of nominee directors, etc.

The study of around fifty public sector companies in Kerala by Pillai and Bala Subramanian (1983)27 establishes the prevalence of 'political management' in the companies. It validates the observation of Harbison and Meyers in their analysis of management in the Industrial world that private enterprises are characterised by 'patrimonial' and 'communal' management in the early stages of economic development, while 'political management,' holding of policy making and key administrative positions by persons on the basis of political affiliation and loyalties is typical of public enterprises in the initial stages. Absence of fixed tenure of board members, presence of the majority of government officials on boards erodes the autonomy and commercial character of companies. This,  

according to the authors, belies the hope of state enterprises to be run by those with vision, push and drive.

One of the areas that had been the focus of attention of researchers is the tenure of chief executives. A study by the Standing Conference of Public Enterprises (SCOPE) (1985)\(^{28}\) gives reasons for general dissatisfaction relating to short tenure, especially if it is two years among chief executives. This is said to have serious repercussions on the performance of the enterprises. The study stresses the need for developing a firm convention for appointment of chief executives for a term not less than five years.

A comprehensive and analytical examination of composition, size, profile and tenure of directors in 158 public enterprises functioning in different sectors has been made by Venkata Ratnam and Ramu Naidu (1986)\(^{29}\). It states that in nearly four decades of the evolution of the public sector, professional management could not be built up due to constraints of the public sector environment. Professionalisation at the board level has taken a back seat with the domination of bureaucrats and interests other than managers and employees. The ambiguity of role and functions of the board is highlighted with the governmental and political system assuming responsibility for many tasks. It makes a case for creation of an All India Cadre of public enterprise managers and the right type of agency for proper selection of top management personnel.

Yair Aharoni (1986)\(^{30}\) puts forth two extreme viewpoints pertaining to the role of the board of directors. One goes to the extent of dismissing the institution of the board as all state-owned enterprises are considered policy tools in the hands of the government. The other stresses the necessity of isolating the boards from political intervention. The boards in the USA are considered to be

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autonomous with greater managerial discretion compared to other countries. This is attributed to the long tenure of its very small board of directors and its revenue generating capacity from operations. The level of involvement and the effectiveness of the board is said to depend primarily on the distribution of powers among the sponsoring minister, chairman and the managing director.

The health of the public enterprises is said to be conditioned by the nature of their relationships with the government. Praxy Fernandes (1986)\textsuperscript{31} makes a case for 'managerialising' the interlinkages between the state and the enterprise. He examines the nature and content of relationship between the state and enterprise, professional approach to the handling of points of contact, converting the political process into a techno-managerial process. It is against this background that the institution of the board of directors as one of the areas of state intervention is examined. The exercise of this prerogative by the government determines the health and performance of the enterprise.

The board of directors, according to Ayub and Hegstad (1986),\textsuperscript{32} is said to serve as a crucial "buffer" between the ownership role of the government and the operating role of the Chief Executive Officer and senior executives of the enterprise. It has three important roles (i) approval of policy and strategy (ii) performance evaluation and (iii) appointment and dismissal of the chief executive officer. The cause of ineffective boards is usually a problem of design and implementation with government assuming the strategic role, getting entangled in operating decisions resulting in problems. The board's principal functions of providing strategic guidance and effective control are generally replaced by weak or no controls and slow and politicised decision making. The authors outline certain desired important elements for a properly designed and constituted board such as adequate size, professional experience, compensation, etc.


The nominee director system introduced in India in 1971 is uniquely an Indian institution. The study by Gupta (1989) is first in its nature which takes a comprehensive look at corporate boards of around 444 companies in India to analyse the experiences of nominee and other directors. A distinction is made between governance and management. Governance which encompasses two chief elements, i.e. overall supervision of management and accountability, is said to be the domain of the board of directors. A survey of corporate board structures covering (i) board size (ii) nominee director representation (iii) board committees and (iv) board meetings is presented.

The greatest unexplored opportunity of improving corporate performance lies in the area of corporate board rooms. Bansal's work on board room practices (1989) is an effort in this direction. It analyses important aspects of structure and composition, the functioning pattern of boards, the interlocking practices of around one hundred large companies of India.

A new model of board governance that energises board members to build a strong and vibrant organisation that achieves its goals is presented by Carver (1990). The new governance stresses sustaining vision, external focus, forward thinking and proactivity. The strategic leadership of boards require certain qualifications like commitment to the ownership, willingness to delegate and assertive participation in deliberations.

Proper constitution of the board of directors as the most significant single area for improving public enterprise performance has been emphasised in a survey carried out by Laxmi Narain (1990) under the aegis of SCOPE. The formation and composition of the board of directors of the central public sector enterprises with particular focus on the role of government directors is the central

tenet of the study. The indisputable conclusion that emerges is that the present composition and mode of functioning of boards is a barrier to good commercial decision making and efficient business. Longer tenures to all directors, strengthening of the institution of Chairman-cum-Managing Director and increase in the strength of non-official directors are some of the corrective measures suggested by the study.

The management of public enterprises has not received adequate attention from the government in the formative years. Especially the boards of public enterprises have remained neglected for quite some time. A study by Ramu Naidu (1990)\(^\text{37}\) reveals many loopholes pertaining to the size, composition and predominance of officials on boards. The attitude of most of the chief executives to be the sole repository of power in the enterprises instead of delegating it to functional directors has been brought out by the study. The managerial environment which is bureaucratised and rule-oriented, is considered not conducive to their effective functioning.

The relationship between the government and board of directors which has a direct bearing on public enterprise autonomy has been examined by Arvind Sharma (1990)\(^\text{38}\). The respective roles of the board of directors and managing director who constitute the top management of the enterprises are also discussed. The focus is on the role of a public enterprise board as a buffer as it is one of the crucial counts on which the public sector management differs from that of the private companies.

An organisation and its people at all levels can be built up and inspired to pursue excellence only if there is a good chief executive and board of directors at the top. Personnel and management development, succession planning, building an organisation identity and ethos are internal matters the responsibility


of which rests with the chief executive and the top management. These observations have been made by Iyer (1991) \(^{39}\) while examining the various issues of public enterprise management.

In India governing boards at present are hardly policy making bodies as major policies and decisions are made by the government, leaving the implementation to the boards. Madan Mohan Reddy (1991) \(^{40}\) in an attempt to analyse the composition and functions of governing boards in Indian public enterprises favours making them functional boards. The right choice of leadership for public enterprises is emphasised by the author.

The role, functioning and relationship between chairman (part-time) and chief executive (full-time) are critical factors of the state level public enterprises. But the role conflicts and overlap of responsibilities between the chairman (political) and managing directors (civil) destroy the 'board excellence' of the state level public enterprises. These have been highlighted by Bhat and Nandagopal (1991) \(^{41}\) in their study of state enterprises in Andhra Pradesh. The problem becomes acute with senior civil servants functioning as managing directors under public men, the situation posing a question as to who is the real chief executive.

A study by Tuteja (1992) \(^{42}\) of one hundred public limited companies with a paid up capital of 50 lacs, examines the patterns with regard to the size and composition of the board, the possibility of the introduction of two-tier boards and workers participation in management.

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The relationship between board size and corporate failure based on conclusions of a research study conducted in 1985 is analysed by Samuel (1992). According to the author, a causal relationship between the size and performance of a company as established by the study is not convincing. Board size cannot be a primary cause of corporate performance. A single determinant of corporate performance is more than likely to be abortive as there are several other factors that help or hinder corporate excellence. Other issues like the operation of a board, quality of information at its disposal and the kind of decisions it takes are more significant in determining board effectiveness.

The state enterprises in Punjab have no uniform statutory provisions regarding the size of the board, its composition, tenure, qualifications of members as indicated by Batra and Bhatia (1993). It varies from undertaking to undertaking. The tenure of the chief executive has been short with frequent changes adversely affecting the efficiency of the state enterprises. The autonomy of enterprises is considered a sham which has affected the operational efficiency of state enterprises.

An attempt has been made by Bonu Swamy (1993) to study the Board of Governors of the Ganga Nagar Sugar Mills, a public enterprise. The study concludes that many of the decisions of a technical nature are generally not taken up by the board owing to lack of technical experts on the board unlike in the private sector. It highlights the board's domination by the bureaucracy. The author suggests changes in the style of functioning of the board and need for flexibility in decision-making. It favours broad basing the boards with inclusion of technocrats.

A case for making boards of directors the true representatives of shareholders responsible for long term survival, growth and excellence of corporate undertakings has been made by Heggade and Yadapadithaya (1994). The functioning of the board reflecting the highest order of leadership is emphasised. Another crucial issue in promoting board excellence is determining the proportion between inside and outside directors. The boards of the Indian corporate sector, especially the public enterprises, maintain the authors, need rethinking and proper restructuring. In the change process, a genuinely independent working board will prove a creative unbiased approach to the company’s development.

The Economist’s Survey on Corporate Governance (1994) points out the board’s ineffectiveness in corporate governance in Britain, America and Japan. The reformers in America and Britain are said to be trying to introduce a clear separation of roles between executive and non-executive members of a one tier board on the German model. Also the emphasis is on finding good quality “independent non-executives” on the board.

A seminar organised by the Department of Public Enterprises, International Centre for Public Enterprises in Developing Countries, Telecommunications Consultants India (1994) focuses on the strategies of public sector reform in India. One of them is moving towards board managed public sector undertakings. The seminar observes that public sector boards are really not effective due to the short tenure of chairman-cum-Managing directors, lack of professional directors on the board and political considerations determining the selection of chief executives. It recommends the need for granting greater autonomy to boards, increase in tenure of board members,

boards to be made professional and their size and structure to be so amended to facilitate timely, fast and business-like decisions.

The way companies are run matters to all wherever we live. We need the goods and services it produces and the employment it provides. The book by Jonathan Charkham (1995)\textsuperscript{49} examines the system by which companies are directed and controlled in five countries - Germany, Japan, France, USA and UK. Two basic principles of corporate governance are emphasised. They are the freedom with which managers drive the companies forward and a framework of effective accountability. The author analyses the various ways in which these principles can be applied in each country.

John Pound (1995)\textsuperscript{50} provokes a new dimension to corporate governance by making a case for a new model of governed corporation. This model reconnects the two critical parts of corporate governance, i.e. shareholders and board members to the decision-making process. The governed corporation envisages the informed involvement of director, manager and major shareholder. The author observes that over the long-term, an open flexible process with involvement by boards and shareholder creates stability.

The debate on corporate governance assumed importance in Britain, especially after the setting up of the Committee on Financial Aspects of Corporate Governance in 1991.\textsuperscript{51} With this, the role of chairman, though has no particular legal importance, acquired public significance. This has been attempted by Cadbury (1995), especially in the context of Britain and in countries following the British board model, wherein changes in present times in the role of chairman is visible, being accountable for actions as chief executive. A case is made by the author for having a two-tier board structure, clarifying the


responsibilities of directors and separating the functions of framing and execution of policies. The responsibilities of the chairman towards the board in providing direction, leadership, vision and monitoring are highlighted.

Sheridian and Kendall (1995)\textsuperscript{52} make a strong case for excellence in governance, for the board to be effective as any area such as marketing, operations, production, research and development. The board effectiveness depends on two critical factors: a creative and stimulating chairman and bringing the vision and independent perspective of outside directors. To achieve the highest standards of board room management, need for right balance in boards, structure conforming with legal and regulatory requirements are emphasised. The successful board, affirms the author, is one that has achieved the right balance of direction and entrepreneurial drive.

In the 1990s, the concept of corporate governance is said to have attained a wider significance with various issues coming into its fold. These encompass a greater accountability of directors towards the company and shareholders, broader representation of shareholder interests and an enhanced role for the board in strategic direction. These have been highlighted by Saleem Sheikh and William Rees (1995).\textsuperscript{53} The modern corporation is perceived as a caring corporation that discharges social as well as economic obligations in society. The rise of professional managers and directors within the corporation is said to symbolise a new managerial revolution within the corporate governance system.

Ramnarayan and Pandey (1997)\textsuperscript{54} examine the key issues of management of public enterprises, particularly with reference to the changing


economic and political environment in the developing and developed countries. The changing role of public enterprises, need for strategic management, performance improvement and regeneration, making their accountability and autonomy effective and the experiences of chief executives are highlighted in the book.

Besides, there are a few journals that publish articles on public enterprises management. These include, Administrator, The Indian Journal of Public Administration, The Journal of Institute of Public Enterprise, Productivity, Public Enterprise and Vikalpa.

The various committees constituted by the government from the 1950s to date that have probed the functioning of public sector enterprises delved into board management. These include the Committee on Efficient Conduct of State Enterprises, Congress Sub-Committee on Parliamentary Supervision over State Undertakings, Administrative Reforms Commission, Company Law Committee, Economic Administration Reforms Commission, Committee to Review Policy for Public Enterprises, Expert Committee on Public Enterprises and the Disinvestment Commission. Their manifold recommendations pertaining to important aspects of board structure, composition and autonomy found little favour with the government.

The review of literature pertaining to the board of directors reveals some striking trends. In the initial years of the evolution of the public sector much of the focus of research has been on the nature, types, size and composition of the boards. Gradually, the question of board effectiveness assumed importance and a wide range of issues relating to it such as the professional competence of the board and contribution of nominee directors, autonomy had become the focus of attention.

The 1990s has witnessed a new resurgence in thinking globally on the way the companies and corporations are managed. The New Industrial Policy of
1991 in India, has marked a new beginning towards public sector reform with emphasis on professionalisation of the board of directors. There have not been many research studies in India, especially after 1991, examining the various aspects of reforms in board management of public sector enterprises.

This study has been an attempt in the direction of examining certain important facets of boards of directors of four major central public sector enterprises in the light of ongoing public sector reforms. These four enterprises, the Bharat Heavy Electricals Limited, National Thermal Power Corporation Limited, Oil and Natural Gas Corporation Limited, and Steel Authority of India Limited, have been proclaimed recently as Navaratna enterprises by the government. The study highlights the changes being brought about in board management in tune with the Industrial Policy of 1991. This would enable gaining an insight into various aspects of empowerment of these boards in the true sense that would enable them to function as board managed companies.

**Scope of the Study**

The investment in central public sector enterprises has grown appreciably over the years. During 1995-96, the investment in these enterprises went up by Rs. 5,336 crore as compared to 1994-95. The increase has been mainly accounted for by power, petroleum, steel, minerals and metals, heavy engineering sectors, financial and transportation services. The enterprises such as National Thermal Power Corporation Limited, Oil and Natural Gas Corporation Limited, Steel Authority of India Limited, Coal India Limited, are amongst the top ten enterprises in terms of investment which account for nearly 55.69 per cent of the total investment of Rs. 178,628 crore in 243 enterprises.

The major enterprises selected for the purpose of the study include those enterprises which rank high not only in terms of investment, but also in turnover,
profit and employment. The four enterprises namely, Bharat Heavy Electricals Limited, National Thermal Power Corporation Limited, Oil and Natural Gas Corporation Limited and Steel Authority of India Limited, form the focus of study. The structure, composition, powers and functions of their boards of management, their relationship with the government, especially in the present scenario have been examined.

The present liberalisation moves have affected these enterprises a great deal with their going in for acquisition, joint ventures, disinvestment and so on. These four enterprises, recently have acquired the status of the 'Navaratna Public Sector Enterprises'. An analysis of their boards of management would provide meaningful insights into the emerging trends in board management.

**Hypotheses**

1. The board of directors is used as a vehicle for enforcing the decisions taken by the ministry.

2. The board does not have much of a role in policy formulation as the main policies are laid down by the government and issued as directives to the enterprise.

3. There is a positive correlation between the investment of the enterprise and the size of the board.

4. There is a continued predominance of 'generalists' or persons representing various interests rather of different branches of knowledge and experience on the boards. Non-officials belonging to diversified fields including private trade and industry are not widely represented on the boards.

5. There is no succession planning at the level of top management.

6. Workers participation on the boards is minimal.
7. The appointment of government directors on the boards affects the autonomy of the enterprise.

**Methodology and Data Collection**

The study basically is analytical and descriptive. A suitable mix of techniques of data collection has been made use of in the study to present the data in a scientific manner. The survey research method in conjunction with the observation method and simple statistical methods have been used. The major part of the empirical work has been conducted during the period April 1996 to June 1997.

The secondary sources include the literature available in the field in the form of books, reports of various committees and commissions appointed from time to time by the government. Frequent visits have been undertaken to various libraries, Institute of Public Enterprise (IPE), Department of Public Enterprises, Public Enterprises Selection Board (PESB), Standing Conference of Public Enterprises (SCOPE) and concerned ministries and public enterprises.

The annual reports of the selected enterprises and their memoranda of understanding have been examined. The concerned acts of government companies, their memorandum and articles of association have been studied. The material secured helped the researcher in the collection of primary data and drawing inferences.

The sample chosen by the researcher has been more than twenty per cent of the board members, which has been a representative sample. It comprised the serving as well as retired chief executives, functional directors and government directors, associated with the four enterprises during the period 1987-88 to 1996-97.

A structured questionnaire has been framed to obtain information from them on various aspects of board management like structure, size, tenure, remuneration, autonomy etc. This was supplemented by an open interview.
schedule to get impressions from them. The researcher also held Informal discussions with the board members to get their true opinion. For a reasonably full record, the interviews were recorded.

In order to ensure an objective and scientific study of the problem, the following precautions have been kept in mind while processing and analysing the collected data:

(a) Values of the researcher have been left out of the evaluation to a considerable extent.

(b) Accuracy of the data has been properly verified.

Chapterisation of the Research Study

The thesis is divided into eight chapters. The first, 'Introduction, Scope and Methodology' initiates the debate on the importance of the institution of the board of directors in the public sector enterprises. It discusses the various dynamics of the functioning of the board of directors. It throws light on the relevance of focused studies on this subject. The objectives and hypotheses of the work have been enlisted. The methodology based on survey research technique entailing administration of questionnaire and open structured interview schedule has been outlined.

The second chapter, 'Public Sector: Genesis, Growth and Performance' gives an overview of the genesis of the public sector in India. It collates it through a perusal of industrial policy statements and five year plans. It deals with the performance of the public sector through an analysis of its profitability profile, other indicators like generation of internal resources, contribution to central exchequer, etc. It also analyses the performance of the four enterprises chosen for study on the basis of certain profitability ratios. An attempt has been made to focus the factors responsible for the dismal performance of the public sector.

The third chapter, 'Structure of Board of Directors in Public Enterprises' presents an overview of various aspects of the structure of boards of
management. It discusses the nature of the board: policy, functional and mixed. The composition encompasses a variety of elements like full-time members, part-time members, non official members, civil servants, labour, etc. The question of proper composition of boards is analysed which assumes a vital factor for the success of an enterprise.

Chapter four, 'Board of Directors: Composition, Selection and Tenure' deals with these aspects with particular reference to the enterprises selected for study. The organisational structure of the enterprises, changing pattern of boards, their composition and tenure of board members over the last ten years has been analysed to draw meaningful inferences.

Chapter five, 'Board of Directors: Functions' examines the policy making and managerial functions of the board. Its policy making function which is subject to control exercised by the various organs of the government and guidelines of the Department of Public Enterprises is analysed. The functions of the boards of directors of the enterprises under study is reviewed as per the provisions of the Companies Act. memorandum and articles of association.

The sixth chapter, 'Relationship between the Government and Board of Directors' throws light on the issue of control exercised by the government being the major shareholder through its nominees on the board. The effectiveness of the instrument of memorandum of understanding in conferring more operational autonomy to the enterprises is examined. The changes if any, brought about in the government board relationship in the context of disinvestment of shares in the enterprises is analysed.

The seventh chapter, 'Changing Role of Board of Directors : A Case for it's Restructuring' is based on the researcher's own perceptions and experience gained during the study and also the analysis of empirical work.

The eighth chapter sums up the broad conclusions of the study and offers suitable and appropriate suggestions.