Transforming PE Boards in India: Challenges of 21st Century

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Board Dynamics in Public Enterprises: Challenges Ahead

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Since the announcement of the new economic policy in July 1991, the restructuring of the institution of board of directors has held centrestage in the reform policy of the government with regard to the central public enterprises (CPEs). Earlier the Krishna Menon Committee(1959), Administrative Reforms Commission(1967), Fazal Mohammed Committee(1983), Economic Administration Commission(1983) and Arjun Sengupta Committee(1984) had advocated far fetched changes in this respect[1]. The present paper makes an attempt to portray the dynamics of public enterprise boards and to study the impact of the changing policy of the government thereon.

Methodology

A questionnaire on changing role of board of directors in the context of new economic policy was circulated to 246 central public enterprises to elicit information on the different facets of the dynamics of public enterprise boards. 35 enterprises spanning various cognate groups comprising manufacturing and service units responded. The findings of the study are stated below:

Personal Profile

In the case of 21 CPEs, the CEOs were in the age group of 55-60 years. Among others, these enterprises included CMC-a Hi-Tech enterprise, BDL- a vital defence enterprise, ONGC, VSNL and MTNL.

9 enterprises had their CEOs in the age group of 50-55 years. ANTRIX and HVOC had their CEOs in the age group of 45-50. The former operates in the field of space technology and the latter faces cut throat competition in the field of edible oils. ECL –a provider of educational consultancy, MFL – fertlisers and NSC – seeds had their CEOs in the age group of 40-45 years (Table-1).

Table 1 Personal Data

Age Groups	Number	Name of the enterprises
40-45	3	**ECL, MFL, NSC**
45-50	2	ANTRIX, HVOC
50-55	9	BEL, BPCL, GSYL, HLL, MECL, NHPC, SCIL, SIIL,STC,
55-60	21	BCPL, BDL, CMC, CMPDL, GRSE, HAL, HFCL, HPCL, ITI, MAPL, MTNL, MDL, NALCO, NEPA, NPC, NSICL, ONGC, RCFL, TCIL, VSNL, WPCS

Source: compiled from responses to questionnaire.

The age profile of the CEOs brings out some interesting conclusions. One, the top brass of CPEs is ageing. In contrast to present global trends of appointing CEOs in the age group of 35-45 years, the government still puts premium to the age factor in the appointment of CEOs in CPEs. Two, the relatively recent CPEs set up during the 1980s and 1990s have younger CEOs. Finally, the government has started appreciating the fact that the hi-tech, knowledge based and competitive enterprises need younger CEOs.

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The experience profile of CEOs as a board member reveals that 18 CEOs had 0-3 years experience as a board member (Table–2). An equal number of CEOs had experience ranging between 3-24 years. Coming to the CEOs' experience on the private and public sector boards, it is observed that 20 CEOs had 3 years or less experience in public sector. 15 CEOs had 3-12 years experience on public sector boards. On the other hand, 31 CEOs had 3 years or less experience in private sector. Only 4 CEOs had 3-15 years experience on the private sector boards.

Table 2 Experience of CEOs as a Board Member

Experience (yrs.)	No. of CEOs in Public	No. of CEOs in Private	No. of CEOs in Total
0-3	20	31	18
3-6	6	3	6
6-9	4	0	6
9-12	5	0	4
12-15	0	1	0
21-24	0	0	1

Source: compiled from responses to questionnaire.

The analysis points to the fact that the in the zone of 0-3 years of experience, more number of CEOs had experience on private sector boards as compared to public sector. In the higher experience zones, the CEOs had comparatively less experience of being on the private sector boards. It is clear from the above that the inbreeding of CEOs in CPEs is now recognised as a major limitation to their further growth. This is paving the way for recruitment from private sector.

The CEO is the hub of the corporate wheel. His contribution can make or mar the performance of an enterprise. The CEOs identified their contribution under some common focus areas such as targeting performance, R & D, ethics, JVs, export policies, restructuring, HRD, Business strategy budget estimates, draft MoU, industrial relations, productivity, rationalisation of labour, leadership, work ethics, indigenisation, export development, diversification, SWOT, customer focus, radical changes, turnover, fabrication, physical and financial performance, greater freedom for board, induction of non-government officials, revival package, removal of bottlenecks in capacity utilisation, strategic decision making. Table 3 shows that the contribution was more prominent in operational and routine areas. The CEOs could not pride themselves in areas such as corporate culture building, creation of a new regime of values and ethics and transforming public enterprises into self sustained organisations. 9 out of 35 enterprises (26 percent) viz., ANTRIX, BCPL, BDL, MFL, HPCL, HVOC, MAPL and NSICL and WPCS chose not to respond as to what was the most valuable contribution made by the CEOs during their tenure.

Table- 3 Contribution as Board Member

Name of the Enterprise	Most Important Contribution as Board Member
1. ANTRIX	No Response
2. BCPL	No Response
3. BDL	No Response
4. BEL	Targeting performance; R&D; ethics; JVs; export policy

5. BPCL	Restructuring
6. CMC	Restructuring; business strategy; HRD
7. CMPDL	GIS; computerisation of geological modeling; HRD
8. ECL	Budget estimates; draft MoU
9. GRSE	Industrial relations; productivity; rationalisation of labour
10.GSYL	Leadership; work ethics; nation building
11.HAL	Indigenisation; diversification; export development
12.HFCL	No Response
13.HLL	Diversification; industrial relations; overall performance
14.HPCL	No Response
15.HVOC	No Response
16.ITI	Turnover; sorted pending issues with DOT
17.MAPL	No Response
18.MECL	Radical changes; open mgt. & commitment; customer focus; computerisation
19.MTNL	SWOT of MTNL; Mission 2000; $ 418 million GDR issue.
20.MDL	Fabrication; installation of 11 well head platforms-ONGC-Neelam Project
21.MFL	No Response
22.NALCO	Physical & financial performance
23.NEPA	Product diversification; skilful fund mgt.; turn around of the sick unit
24.NHPC	Greater freedom for the Board, induction of non-govt. officials; greater delegation of power with increased responsibility & accountability
25.NPC	Removal of bottlenecks in capacity utilisation; effecting organisational changes
26.NSC	Diversification; production of high value crops
27.NSICL	No Response
28.ONGC	Policy changes; development of new sources of energy like CBM and gas hydrate
29.RCFL	Performance improvement & introducing discipline
30.SCIL	Consolidation of efforts to maintain profitability
31.SIIL	Felicitating decision making process at Board level; total participatory process; agenda in advance
32.STC	Responsible for the turnaround of Projects & Equipment Corporation of India Ltd.
33.TCIL	Formation of revival package for the sick unit TCIL; induction of JV
34.VSNL	Overall mgt. and strategic direction of VSNL
35.WPCS	No Response

Source: compiled from responses to questionnaire.

Board Composition and Board Meetings

That the government lacked the understanding of the role that boards could play in public enterprises is seen from the fact that 14 enterprises (40 percent of the sample enterprises) had vacancies on their boards to the tune of more than 50 percent. Table-4 shows that 17 enterprises (about 49 percent) had vacancies in the zone of 20-50 percent.

Table 4 Vacancy Position in the Board

% Vacancy	No. of Enterprises	Name of the Enterprise
0-25	4	BDL (20), BEL (0), CMC (0), SCIL (14),
20-50	17	CMPDL (47), ECIL (42), GRJE (27), HAL (33), HFCL (33), ITI (27), MDL (33), MFL (35), NALCO (42), NHPC (33), NPCL (36), NSC (31), SIIL (25), NPC (36), STC (43), WPCS (25)

Above 50	14	ANTRIX (38), BCPL (50), HLL (50), HPCL (58), IOC (67), MAPL (50), MECL (58), MTNL (58), NEPA (58), RIPL (50), ONGC (52), TCIL (65), VSNL (58)

Source: compiled from responses to questionnaire.

Table 5 Composition Internal Vs. Government Nominees

Composition (% of the present size of the Board)	No. of Enterprises (% 0f total)
Internal Members	
0-50%	24 (68%)
> 50	11 (32%)
Government Nominees	
0-50 %	25 (71.1)
> 50	10 (29%)

Source: compiled from responses to questionnaire.

Table –5 shows that 10 enterprises (29 percent) had government nominees exceeding 50 percent of the board strength whereas 25 enterprises (71 percent) had government nominees turning out to be 50 percent or less. 34 enterprises (97 percent) were not in favour of increasing the presence of government nominees. Against the optimal number of 12 members suggested for effective corporate governance, the average size over the 6 year period turned out to be 7 in the case of enterprises under study with the average composition as given in the Table 6 below:

Table 6 Average Composition

Average Composition of Board	Number of Members
Internal	3
Workers' Representatives	0
Government Nominees	3
Nominees from FIs	1
Ex-Officio Members	0
External Professionals	0
Others	0

Source: compiled from responses to questionnaire.

As per the Articles of Association of the responding boards they should hold at least once in three months a board meeting. The new land marks suggested by the various committees referred to earlier indicate once a month meeting as an ideal frequency. The analysis of the frequency of board meetings of the enterprises under study shows that board meetings averaged to 7 per year.

The indifference towards recognition of the boards as an instrumentality of corporate governance was displayed not only by the government but also by the corporate management at the enterprise level. This is evidenced from Table-7 which shows the availability of agenda for board meeting to the members of public enterprise boards. 4 enterprises (11 percent) sent the agenda papers less than a week before the board meeting whereas 21 enterprises (60 percent) sent the agenda papers just a week before. 24 CEOs (about 69 percent) felt that board members gave constructive suggestions and 11 CEOs (31percent) indicated that it was only sometimes that the board members made value addition. In 13 (37 percent) cases, the members of the boards were not consulted on the preparation of the agenda for the board meeting. In an equal number of cases they were only casually consulted in the formulation of agenda and in 9 cases (26 percent) they were not at all consulted. On an average the governing boards discussed 2:3 routine items to new items and 3:4 policy to operational issues.

Table 7 Availability of Agenda for Board Meeting

No. of days in Advance	No. of Enterprises in Percentage
Less than 7	14
7	63
10	1
15	22

Source: compiled from responses to questionnaire.

Corporate Governance

The governing boards are the most important link in the chain as their proactiveness is an important element to stir other elements. These boards have to have a clear vision about their role, the role of the government nominees, appointment of subject committees for their improved functioning and evaluation of the contribution of the CEO and other board members. Table 8 shows the role of governing boards in the responding public enterprises. The HVOC equated the objectives mentioned in their Memorandum of Association and Articles of Association with the role it's board plays. ANTRIX and SCIL were not forthcoming on this issue. NSC had carved out a role on practical and operational aspects for its board. MDL confined the role of the board to setting up targets of production, its review and assessment of capacity utilization.

Table 8 Role of Board of Directors

Name of the Enterprise	Role of the BoDs Formal & Informal
1. ANTRIX	-
2. BCPL	Over all policy guidelines : to help the company to prepare long range plans, appointment of key managers.
3. BDL	Board will have to Be cohesive and play a progressive role in shaping the destiny of the company
4. BEL	Setting corporate machine, objectives, goals, reviewing the performance, framing corporate policies and conducting SWOT analysis.
5. BPCL	Setting the companies strategic aim, providing leadership, supervising management of the business, reporting to shareholders on Board's / stewardship.
6. CMC	Guide lines of DPE should only be guidelines and not rules. Board should have powers to look into salary perquisites, profitability, etc.
7. CMPDL	Advising and guiding the Board, cautioning the board about pitfalls.
8. ECL	To provide directions for growth of the company and monitor progress in constructive manner.
9. GRSE	Board must be the supreme policy making body to manage the company in the best interest of the enterprise. Govt. should not try to do backseat driving through nominated directors.
10.GSYL	Chairman should take the decision with informal / formal advice from the Board.
11.HAL	Policy formulation and updating review, monitor implementation of plans, ensure compliance of laws, guide in technology updation, give fillip to R&D effort, monitor progress of new projects / diversification programmes.
12.HFCL	Give their view points and benefit of their experience in taking major policy decision.
13.HLL	BoD should be able to give professional guidance to the corporate body.

14.HPCL	Directors should meet in Board meetings to approve various growth oriented agenda with pragmatic views in regard to size, nature and tough external competition.
15.HVOC	As under MoA and AoA.
16.ITI	Formulation of policy guidelines, superintendence, formation of JVCs, foreign collaboration.
17.MAPL	To manage business of the company by exercising all such powers within the frame work of the Companys Act.
18.MECL	To guide the company towards growth in today's competitive market, lay down policies and monitor its implementation.
19.MTNL	BoD should give a feedback on the performance of the company based on the knowledge and interaction with the members of the public.
20.MDL	Role of the Board should be confined to setting up targets of production in terms of quantity and value; review of actual production vis-à-vis targets; assessment of under utilisation of capacity by determining attainable production vis-à-vis firm orders / projected demand; prescription of standards of equipment utilisation, broad targets of inventory levels.
21.MFL	Board should monitor executive management; should present a balanced and understandable assessment of company's position; should establish an audit committee; should devote time and effort to attend meetings.
22.NALCO	To set goals, to set over all policies, to decide strategies for future.
23.NEPA	To guide senior level management on policy matters; interact with ministries in government and other agencies to further development of the organisation. General image building for the company in different flora.
24.NHPC	Board should guide the organisation in the short and long term plans. Extend advice and assistance in technical, financial, administrative and organisational matters to ensure best performance. Board should be a vocal mouth piece to project corporation's achievements and aspirations and protect the same from adverse actions and reactions from various quarters.
25.NPC	BoD should be mainly concerned with formulation of policy and to review the performance of the on-going projects, performance of the operating stations and exercise the powers which are vested in the BoD with regard to sanctions and approvals.
26.NSC	More concentration on practical operational aspects. Free and frank brain storming discussion. Each and every director should be heard.
27.NSICL	Board should be available to visualise the future scenario and direct accordingly the future activities. Monitor aspiration of the service user, general economy and employees to give proper policy direction. Adopt techniques of successful managerial practices of private sector boards.
28.ONGC	Develop a long lasting vision of the company. Provide strategic direction, promote business and ensure long term growth, add value in large investment decisions, encourage creativity, technology up-gradation and value based business.
29.RCFL	BoD is the pivotal authority created by the company. Role is mainly in laying down policies and ensure strategic and long term plans are carried out. Role is insignificant in the field of development and creation of core competence.
30.SCIL	No response
31.SIIL	Assist company through their inputs in strategic planning, provide support in controlling external environment. Provide guidance and bridge in the knowledge gap in areas like technical / marketing. Finance / HR / Operations.
32.STC	Formulation of corporate plan / policies / strategies. Fixation of targets and laying down of control / monitoring mechanism.
33.TCIL	To evolve strategic plan, its implementation monitoring.
34.VSNL	A combination of formal and informal roles is desirable. The board members may if need be have to formal advance discussions to arrive at formal decisions.
35.WPCS	The directors in the respective professional field apart from dwelling on board proceedings shall also share the responsibility to develop strategies and plan for business development and to be proactive in resolving key issues in the implementation process. This interaction shall be through a sub-committee which shall function under the CMD and report to the Board from time to time.

Source: compiled from responses to questionnaire.

That the governing boards had less than an adequate idea of corporate governance is seen from the fact that 14 enterprises (40 percent) did not appoint sub committees. The various models suggested on the formation of sub committees provide a space for the inclusion of non-board members. They do not insist on every committee being headed by the CEOs. In the case of the central enterprises the members of the committees in most cases are the CEOs, directors from various functional areas, representatives of government and thin representation of management experts. In 21 out of 35 enterprises (60 percent), the committees focussed on R&D, projects, share issue and transfer, delegation of power, financial restructuring and pay revision. These committees once on an average met once a month.

Managerial Succession Planning

In 77 percent cases (27 out of 35 enterprises), there was awareness about managerial succession planning whereas in the remaining cases no succession planning existed. The succession planning process is said to be based on the merit experience and competency for vacancies arising out of either retirement, growth, new business etc. It is planned atleast 6 months in advance in most of the cases and in some case even 2 years in advance. Successors at each level are identified and transferred at the appropriate time. In some cases succession takes place by induction or appointing as an understudy to the serving officer. For board level appointments, Public Enterprise Selection Board (PESB) plays a major role. Even in the case of second level officers, PESB is involved in appointments. Though the responding public enterprises in general claimed to have a managerial succession planning, the annual surveys on the working of public enterprises published by the department of public enterprise for the various years reveal that atleast 25 percent of the CEO positions remain vacant at any point of time.

PESB being the body for finalising the board level appointments is required to ensure that CPEs do not remain topless. In 15 out of 25 (43 percent cases) CPEs, the respondents feel that PESB has significantly contributed towards the succession planning whereas 9 out of 35 (26 percent) feel its contribution is moderate. Only one enterprise feels that its contribution has been great. 21 out of 35 CPEs (60 percent) feel that PESB requires restructuring. The rest 14 feel that it is not required. 13 out of 35 enterprises (37 percent) feel that the composition of second level committee is moderately balanced. 3 out of 35 enterprises (8 percent) feel it is least balanced. 23 enterprises (71 percent) feel that there is a need to bring about a change in the role of PESB. The same number of enterprises think that PESB should be made an autonomous body and given full powers(see Table 9). This shows that CPEs prefer PESB to continue but in a restructured way. This is reinforced by the finding that 27 enterprises (77 percent) are against the boards for electing their own chiefs themselves. The general view about the board level appointments is that the CEO with his experience of the unit should have a say in the selection of the board members as well as the CEO. PESB should not depend on the administrative Ministry to initiate the selection process. PESB selections should be final. The clearance from the Cabinet Committee on Appointments should not take more than a month.

Table 9 PESB Performance

PESB Performance	Restructuring	Balance of Composition of PESB's Second Level Selection Committee	PESB Role	PESB Autonomy
Significant (43%)	Yes (60%)	Significant (54%) 19 / 25	Change (29%)	Pro (68%)
Excellent (30%)	No (40%)	Moderate (37%) 13 / 35	No Change (71%)	Anti (32%)
Moderate (26%)	-	Least (8%) 3 / 35	-	-
No Response (28%)	-	-	-	-

Source: compiled from responses to questionnaire.

Conclusion

The new economic policy mentions reform in the institution of board of directors in CPEs as one of the main planks of public enterprise restructuring. The institution of board of directors determines the destiny of an enterprise[2]. The research on board of directors of 35 CPEs reveals several facets of their malfunctioning. The Boards are not only ageing but also suffer from heavy inbreeding. This ill-equips CPEs to face domestic and global competition. The analysis of the frequency of board meetings of the enterprises under study shows that board meetings averaged to 7 per year. 60 percent of the board level positions remained vacant. The boards suffer from excessive presence of government officials and the other nominated members. In 29 percent cases, the government nominees exceeded more than 50 percent of board strength. Their domination was so intense that 97 percent of the sample enterprises turned down the idea of increasing their strength on pubic enterprise boards. In 77 percent cases the agenda for board meeting was provided within 7 days of the date of the board meeting. 40 percent of the sample enterprises did not set up board committees. 23 percent of the CPEs did not have a managerial succession planning system and 60 percent of the respondents were for restructuring the role of the PESB. 37 percent of the CPEs felt that the balance of composition of PESB's second level selection committee was moderate. 68 percent felt that PESB should be provided greater autonomy. The corporate governance function was in low key. The CEOs lacked a clear vision. 9 sample enterprises were not able to state the single most important contribution of their CEOs. To sum up, there is an urgent need to revamp the boards of CPEs to make them business like, organic, competitive and future driven.

Abbreviations

1. ANTRIX	ANTRIX CORPORATION LTD.
2. BCPL	BENGAL CHEMICALS & PHARMACEUTICALS LTD.
3. BDL	BHARAT DYNAMICS LTD.
4. BEL	BHARAT ELECTRONICS LTD.
5. BPCL	BHARAT PETROLEUM CORPORATION LTD.
6. CMC	COMPPUTER MAINTENANCE CORPORATION LTD.
7. CMPDL	CENTRAL MINE PLANNING & DESIGN INSTITUTE LTD.
8. ECL	EDUCATIONAL CONSULTANTS INDIA LTD.

9. GRSE	GARDEN REACH SHIPBUILDERS AND ENGINEERS LTD.
10.GSYL	GOA SHIPYARD LTD.
11.HAL	HINDUSTAN AERONAUTICS LTD.
12.HFCL	HINDUSTAN FERTILIZER CORPORATION LTD.
13.HLL	HINDUSTAN LATEX LTD.
14.HPCL	HINDUSTAN PAPER CORPORATION LTD.
15.HVOC	HINDUSTAN VEGETABLE OILS CORPORATION LTD.
16.ITI	INDIAN TELEPHONE INDUSTRY
17.MAPL	MAHARASHTRA ANTIBIOTICS AND PHARMACEUTICALS LTD.
18.MECL	MINERAL EXPLORATION CORPORATION LTD.
19.MTNL	MAHANAGAR TELEPHONE NIGAM LTD.
20.MDL	MAZAGON DOCK LTD.
21.MFL	MADRAS FERTILIZERS LTD.
22.NALCO	NATIONAL ALUMINUM COMPANY LTD.
23.NEPA	
24.NHPC	NATIONAL HYDROELECTRIC POWER CORPORATION LTD.
25.NPC	NUCLEAR POWER CORPORATION LTD.
26.NSC	NATIONAL SEEDS CORPORATION LTD.
27.NSICL	NATIONAL SMALL INDUSTRIES CORPORATION LTD.
28.ONGC	OIL AND NATURAL GAS CORPORATION LTD.
29.RCFL	RASHTRIYA CHEMICALS & FERTILISERS LTD.
30.SCIL	SHIPPING CORPORATION OF INDID LTD.
31.SIIL	SPONGE IRON INDIA LTD.
32.STC	STATE TRADING CORPORATION OF INDIA LTD.
33.TCIL	TYRE CORPORATION OF INDIA LTD.
34.VSNL	VIDESH SANCHAR NIGAM LTD.
35.WPCS	WATER & POWER CONSULTANCY SERVICES (I) LTD.

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Transforming Navaratna and Miniratna PE Boards: A Critical Analysis

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The purpose of this paper is to examine the impact of *Navaratna* and *Miniratna* concepts intended to provide greater financial and operational autonomy to public enterprises(PEs). In 1997, the government decided to confer wide powers on 9 PEs, christened as Navartanas to make them global giants. 2 more PEs were added to this list later. During the same year it was felt that even consistently profit making PEs other than Navaratnas were required to be given such an autonomy. 92 such PEs divided into two categories were recognised as Miniratnas. Due to erosion in profitability the number of Miniratnas has declined to 39.

Conceptual Background

The Navaratna concept originated in the Common Minimum Programme of June 5, 1996 of the United Front Government which promised identification of PEs having comparative advantages, to be supported in their drive to become global giants. On July 4, 1997, the Government decided to confer wide powers on nine PEs, christened Navaratnas. Two more were added to the list later (Annexure-1).

Under the Navaratna package, PEs were given the following financial and operational autonomy:

a) to incur capital expenditure on purchase of new items or for replacement;
b) to enter into technology joint ventures or strategic alliances;
c) to obtain, by purchase or other arrangements, technology and know-how;

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d) to effect organisational restructuring including establishment of profit centres, opening of offices in India and abroad, creating new activity centres;
e) to create scrap posts including and upto those of non-Board level Directors;

f) to structure and implement schemes relating to personnel and human resource management, training, voluntary or compulsory retirement schemes;
g) to raise debt from the domestic capital markets and borrowings from the international market, subject to the normal clearance of the Reserve Bank of India and the Department of Economic Affairs.
h) to establish financial joint ventures and wholly-owned subsidiaries in India or abroad subject to a ceiling of Rs. 200 crores in any one project, 5% of the net worth of the PE in any one project, and 15% of the net worth of the PE in all joint ventures/subsidiaries put together.

On October 8, 1997, a package for 97 consistently profit-making PEs called Miniratnas was announced. These PEs were put in two categories. T**he first category** covered enterprises (i) making profits continuously for the last three years, with a pre-tax profit of at least Rs. 30 crores in at least one of the three years, (ii) having a positive net worth, (iii) not having defaulted on government loans, and (iv) not receiving any budgetary support**.** **The second category** comprised PEs with pre-tax profits (no amount mentioned) during the last three years; (ii), (iii) & (iv) being the same, as for category-I (Annexure-2).

Category I PEs were empowered to: (i) Incur capital expenditure upto Rs. 300 crores or equal to their net worth, whichever is lower, (ii) Establish joint ventures and subsidiaries in India, and if abroad with the concurrence of the administrative ministry, with an equity limit of Rs. 100 crores or 5% of the net worth in any one case, and 15% of the net worth for all joint ventures and subsidiaries put together, and (iii) Enter into technology joint ventures and strategic alliances subject to government guidelines.

For category II, the figures under various heads were restricted to:
(i) Rs. 150 crores or 50% of the net worth, (ii) Rs. 50 crores, the two percentages and the power under (iii) being the same as for category-I.

According to the Navaratna/Miniratna package, the Boards of these companies, should be professionalised by inducting a minimum of 4 non-official directors in the case of Navaratnas and 3 non-official directors in the case of Miniratnas before the Board exercise the enhanced powers. Adequate number of non-official directors have been appointed in all the Navaratna PEs and 17 of the Miniratnas. In respect of the remaining Miniratnas it is in the process.

Impact Analysis

The impact analysis has been done on the basis of a structured questionnaire(enclosed) which was initially pilot tested on one Navaratna PE and one Miniratna PE. In all 3 Navaratnas and 9 Miniratnas responded to the questionnaire.

<u>Criteria</u>
On being asked as to why the enterprise was selected as Navaratna/Miniratna, it was pointed out that consistent profit making, growth, investment and infrastructure acted as the main considerations for their selection. According to one respondent, Oil and Natural Gas Company Ltd. (ONGC), the Navaratna status was accorded to it as it is one of the largest and consistently very high profit making PE, it is in the business of hydrocarbon exploration and production which is considered to be of strategic importance and capacity of the company to finance large capital projects from internally generated resources. Similar views were reflected in the response by the Navaratna, Steel Authority of India Ltd. (SAIL). Another Navaratna PE, Hindustan Petroleum Corporation Ltd. (HPCL), disclosed that Navaratna status was granted to it as it has been able to achieve consistent growth and development. National Mineral Development Corporation (NMDC) was given the Miniratna status in view of its consistently good financial performance and technical and personnel attributes. Power Grid Corporation of India Ltd.(PGCIL) has been recognised as a Miniratna due to it consistent profit making, doubling of the net worth and consistency in dividend payment. Kudremukh Iron Ore Ltd. (KIOL) received the Miniratna status due to its outstanding performance as a 100 percent Export Oriented Unit, achievement in production and export targets and all round development. Rajasthan Electronics and Instruments Ltd. (REIL) obtained the Miniratna status owing to wealth accumulation for shareholders and meeting its business objectives while maintaining financial health through internal accruals, short term market borrowings & timely servicing of debts.

<u>Autonomy</u>
The respondents identified autonomy as the basic prerequisite for effective functioning.

According to HPCL, autonomy to an enterprise should be full freedom to the CEO and his senior management team to manage an enterprise to achieve the overall objectives of development and growth of the enterprise, but functioning within highest norms of ethics and corporate governance. The CEO should be accountable to the Board. Board intervention should be limited to overall reviews and control and guidance on policy-related matters.

ONGC's response was that currently, public enterprises are additionally subject to approvals and guidelines of the administrative ministry and DPE and also answerable to various Parliamentary and Government bodies.

KIOL responded that PE Management should be allowed to take decisions on expansion works, acquiring additional business investment in new projects without any financial limits as long as there is no budgetary support from Government.

REIL emphasised the authority to take quick decisions in response to market conditions, especially on the front of product design and manufacturing modification. It felt the need for a level playing field vis-à-vis the competitive forces, especially to take recourse to mobilisation from means other than internal accruals or budgetary support from Government. This would be meaningful especially for raising long-term capital loans from the free market, collaborations, joint ventures, overseas operations, national operations, etc. Employee participation in organisation's growth and profits through stock options, policy for rewards and growth was also recommended.

RCF stressed on absolutely no interference from bureaucrats in general and other frivolous rules applicable to the PSU should be coming in the way of total freedom of management. NMDC felt that the company should be Board-managed.

Impact on Operational/Financial Autonomy

From the responses to the questionnaire, it is found that most of the respondents agreed that there is operational/financial autonomy to a moderate extent. Table 1 provides the views of the respondents on operational autonomy.

Table 1

Operational autonomy given and availed by the PEs

Name of PE	Operational autonomy given and availed by the PE				
	Monitoring of performance by the Board	Technology and R&D	Product Mix	Fixation of performance targets	Remarks
1. HPCL	-	-	-	-	Under Navaratna package only "decision making authority accorded and no special operational autonomy.
2. ONGC	Overall	Initiatives	No	Financial	

	performance monitored by Board on quarterly basis.	being taken by various R&D institutes in ONGC to acquire new technology. Except for the guidelines issued by Government in January 2000 for technology joint ventures, no other change and existing tendering procedures have to be followed.	change. Crude oil, natural gas and value-added products continue to be primary revenue earners.	targets carrying 60% of weight are still as per existing directive of DPE. Physical targets and dynamic efficiency parameters modified to reflect organisation's focus on production, reserves accretion, HR, IT & R&D etc.	
3. KIOL	Yes	Yes	Yes	Yes	Operational autonomy availed by the PE
4. MDL	Yes. Monitoring of performance by Board and Administrative Ministry done periodically.	R&D efforts geared towards quality improvement in the areas of design, manufacture, and assembly erection.	Not availed	Since 1991-92 with approval of Board, company has been on MOU in which targets on various activities and performance parameters are laid down.	-do-
5. REIL	-	-	-	-	Operational autonomy given to a less extent. PE has not availed

					operational autonomy.
6.. PCIL	Yes. Performance of Corporation is primarily monitored by Powergrid Board and thereby Group of Secretaries of GOI.	Powergrid has adopted new technologies like FACTS, series computeri-sation, GIS retch.	-	To some extent autonomy was availed.	
7. RCF	-	-	-	-	In view of there being no non-official Directors on Board, RCF cannot exercise the authority.
8. IMPCL	-	-	-	-	As per DPE's order in general.
9. NMDC	-	-	-	It is arrived after discussion with ATF Members of DPE.	-
10. KRL	-	-	-	-	As per DPE's order in general.
11. BRPL	-	-	-	-	As per DPE's order in general.
12. SAIL	Yes	Yes	No	Yes	-

Source: Compiled from responses to questionnaire

Styles of Management

From the responses received to the questionnaire, it is found that the status of Navaratna/Miniratna has changed the styles of management in the PEs and they are becoming more commercial and market-oriented. Now the PEs are managed with management and professional-orientation and they are concerned about customers. However, the CMDs of IMPCL and NMDC, mentioned that there is no change in the styles of management in their respective organisations. The Table-2 gives the details of styles of management followed by the PEs:

Table-2

Styles of Management

Styles of Management	**Completely changed**	**Significantly changed**	**Moderately changed**	**Slightly changed**	**Remarks**
1. Commercial-orientation	-	2	1	2	-
2. Market-orientation	-	1	1	2	In the case of Powergrid corporation it is not applicable.
3. Management-orientation	-	2	-	3	-
4. Professional-orientation	-	3	1	-	HPCL management style has grown towards more of professional-orientation
5. Customer-orientation	-	1	1	1	In the case of Power Grid Corporation it is not applicable.

Source: Compiled from responses to questionnaire

Navaratna/Miniratna Package and Its Impact

The CMDs were asked certain questions on the impact of Navaratna/Miniratna package on their enterprise in a rated scale, which is given in the table given below. The questions and their responses are given in tabular form.

Table-3

Navaratna/Miniratna Package and Its Impact

Details	No. of Respondents			
	Strongly agree	Agree	Neutral	Disagree
a) There is deregulation, depoliticalisation and debureaucratisation	-	3	2	4
b) Decision-making powers vested in various Government agencies has reduced (or altered)	-	5	2	2
c) There is enhanced delegation of powers to the Board now	-	8	-	2
d) Board is given a free hand in taking policy decisions	-	5	2	1
e) There are now transparent and effective systems of decision-making and internal monitoring	-	6	1	1
f) Monitoring the performance of the PE is done primarily by the Board	-	6	1	1
g) Autonomy of the PE has increased	-	4	1	3
h) Accountability of the Management has increased	2	3	2	1
i) Overall performance of the PE has improved	1	5	1	1
j) Employees at all levels are encouraged or actively involved in the areas of quality improvement, productivity, marketing and performance upgradation	2	4	1	1

Source: Compiled from responses to questionnaire

Composition of the Board

From the responses we observe that the strength of the Boards ranges between 9 to 21. Further, it is observed that in eight of the PEs, maximum strength is not maintained. On an average, three to six vacancies are there. Only in the case of Kudremukh Iron Ore Co., the full strength is maintained.

Table-4

Composition of the Board

S.No.	Name of the PE	Board size as per Articles of Association	Present size of the Boards	Details of Directors
1.	HPCL	15	12	CMD - 1 Internal Directors - 4 Government Nominees - 3 Non-official Directors - 4
2.	ONGC	21	15	CMD - 1 Functional Directors - 6 Government Nominees – 3 Non-official/Directors -5
3.	KIOCL	9	9	CMD -1 Full-time Director – 3 Non-official Directors – 4 Government Nominees – 1
4.	MDL	15	10	CMD - 1 Full Time Directors - 4 Govt. Nominees - 2 Non-official Directors - 3
5.	REIL	12	8	Chairman - 1 Managing Director - 1 Directors - 5 Government Nominee - 1
6.	PCIL.	12	8	CMD -1 Full-time Directors - 3 Govt. Nominees - 2 Non-official Directors - 2
7.	RCFL	12	7	Details were not given
8.	IMPCL	10	7	Details were not given
9.	NMDC	12	10	CMD - 1 Full-Time Directors - 4 Govt. Nominees - 2 Non-official Directors - 3
10.	KRL			Board has not been restructured by induction of non-official Directors and it is in process.
11.	BRPL			Board has not been restructured by induction of non-official Directors and it is in process.
12.	SAIL			Functional Directors-9 Government Nominees-2 Non-Official Part Time Directors-8

Source: Compiled from responses to questionnaire

Audit Committees & Board Members

Out of 11 PEs, six are having Audit Committees and there are non-official Board Members in the Audit Committees. Five PEs are not having Audit Committees. They are: 1) MDL. (2) REIL (3) IMPCL (4) BRPL, and (5) KRL.

In all the Audit Committees three to six Board Members are there and out of these members one to three are non-official Board Members. The details are given below:

Table - 5

Audit Committees and No. of Board Members

Name of the PE	No. of Directors	Details
Hindustan Petroleum Corporation Ltd	3	CMD Two Non-official a Part-Time Directors
Oil & Natural Gas Corporation Ltd	6	Two Functional Directors One Govt. Nominee Director Three Non-official Directors
Kudremukh Iron Ore Co. Ltd.	3	All are non-official Part-Time Directors
Power Grid Corporation of India Ltd	4	Two Functional Directors One Part-Time Govt. Director One Non-official Director
Rashtriya Chemicals & Fertilizers Ltd.	3	Details are not given
National Mineral Development Corporation	3	CMD, MMTC Professor from IIMA Social Economist

Source: Compiled from responses to questionnaire

Most Important Issue Faced by the Enterprise.

The respondents were asked to the state the single-most important issue faced by their concerned PEs. Their statements are recorded in the Table-6.

Table-6

Most Important Issue Faced by the Enterprises

Name of the PE	Single-most important issue faced
1. Hindustan Petroleum Corporation Ltd.	After the process of disinvestment during 1992 and public issue in 1995 that has resulted in GOI holding coming down to a level of 51.01%; the need to balance between efforts to manage the company on commercial lines to enhance productivity and value addition while adhering to PSU norms.
2. Oil & Natural Gas Corporation Ltd.	There is an urgent and pressing need to significantly enhance domestic production of crude oil and natural gas. The main contributing basins are already in the mature phase and potential of frontier areas is still uncertain. It is a challenging situation even for the best of companies. Government support and internal reforms embracing new technology and new methods of working are essential for ONGC to succeed under these conditions.
3. Kudremukh Iron Ore Ltd.	Mining lease given to KIOCL over an area of 4605 which expired in 1999. On expiry of regular mining lease, KIOCL was given a work permit to mine only broken area for a year. This was an important issue by this PE.
4. Mazagon Dock Ltd.	"Wage Revision of Employees of MDL" pending in various counts since March 1976. This pending dispute often resulted in agitation at crucial times. This was finally solved by the signing of two separate Memorandum of Settlements with the Unions on the Bargaining Council.
5. Rajasthan Electronics & Instruments Ltd.	Shortage of working capital is the most important issue, as higher turnovers are needed to attain economies of scale necessary for viable profitability levels, in the face of increased competition.
6. Powergrid Corporation of India Ltd.	Realisation of "wheeling charges from SEBs, POWERGRID has formulated the recovery mechanism. Insistence is now on signing of "Bulk Power Transmission Agreement" with provision for "Escrow" and "Letter of Credit" for every new project. To liquidate the arrears of Government of India to assist POWERGRID through Central Plan Assistance (CPA).
7. Rashtrieya Chemicals & Fertilizers Ltd.	The shortage of gas supply by ONGC, which affects the overall performance of the company because all the plants of the Company are basically gas based plants. To meet the gas requirement, the Company has already initiated action to finalise the contract with M/s METGAS Co and M/s TATA TOTAL, for supply of the required gas. In the meantime, the Company is using naptha as the alternative feedstock to overcome the difficulties, which the PE was facing due to shortage of gas.

8.	Indian Medicines Pharmaceutical Corpn. Ltd.	Since our organisation's main assumption in the project report is to supply mainly to CGHS, etc, besides in open market, keeping in view the quality medicines of the company it is felt that share in the open market be increased so that overall masses be benefitted.
9.	National Mineral Development Corporation	*The main problem is autonomy of Corporation.* The issues regarding growth, expansion and new strategies for development all get stinted due to approvals needed from Ministry even when no financial help is sought. The board decisions are again scrutinised afresh by bureaucratic chain in the Ministries.

Source: Compiled from responses to questionnaire

Challenges to Navaratna and Miniratna PEs

From the above discussions on the impact of Navartna/Miniratna Package on PEs, the research findings can be summed up as follows:

There is no budgetary support to PEs, PEs are self-financed and they are raising debts from domestic and international markets Boards are given sufficient operational and financial autonomy in taking decisions in investment in new projects, capital expenditure, monitoring the performance of the PEs, technology and R&D and product-mix, and entering into agreements for joint ventures.

Composition of the Board has changed in respect of Navaratna PEs and there is an induction of non-official Directors in PE Boards and Audit Committees and PE Boards have become more professionalised. The Government has given sufficient delegation and decision-making authority to the Navaratna/Miniratna PEs. Government interference has come down to the minimum. The Boards are functioning with dynamism and with business culture. Autonomy and accountability of the Boards has considerably increased. It is acknowledged that this measure has helped in more objective decision-making while the inducted Directors have brought in fresh thinking. It will also help in injecting an enhanced dose of autonomy into the public sector.

The Boards are conducting more meetings than prescribed in the Articles of Association and devoting extra time in the Board Meetings. Majority of the Board members are attending and decisions are taken after detailed discussions with the members. Decisions are taken unanimously. This has resulted in the reduction of time span in getting clearances from one to two years, which used to cause substantial delays and escalations. The autonomy for investment approvals now available cut down this time to about eight to ten months. The styles of management have changed and PEs have become more commercial and market-oriented. There is professionalisation at the Board and management level. The overall performance of PEs has improved. There is restructuring of organisations in certain PEs and in others it is in process. They are implementing schemes relating to personnel and human resource management, training and voluntary retirement schemes.

Annexure-1

List of Navaratnas

1. **Bharat Heavy Electricals Ltd. (BHEL)**
2. **Bharat Petroleum Corporation Ltd. (BPCL)**
3. **Hindustan Petroleum Corporation Ltd. (HPCL)**
4. **Indian Oil Corporation (IOC)**
5. **Indian Petrochemicals Ltd (IPCL)**
6. **National Thermal Power Corporation (NTPC)**
7. **Oil and Natural Gas Corporation (ONGC)**
8. **Steel Authority of India Ltd. (SAIL)**
9. **Videsh Sanchar Nigam Ltd. (VSNL)**
10. **Gas Authority of India Ltd. (GAIL)**
11. **Mahanagar Telephone Nigam Ltd. (MTNL)**

Annexure-2

List of Miniratnas

Category-1

1. Bharat Aluminum Co. Ltd. (BALCO)
2. Bongaigaon Refinery & Petrochemicals Ltd.(BRPL)
3. Central Warehousing Corporation (CWC)
4. Cochin Refineries Ltd.(CRL)
5. Container Corporation of India Ltd. (CCIL)
6. Dredging Corporation of India Ltd. (DCIL)
7. Engineers India Ltd. (EIL)
8. Fertilizers & Chemicals (Travancore) Ltd. (FCTL)
9. Hindustan Newsprints Ltd. (HNL)
10. Hindustan Organic Chemicals Ltd. (HOCL)
11. Hindustan Zinc Ltd. (HZL)
12. IBP Co. Ltd. (IBPCL)
13. India Tourism Development Corporation Ltd. (ITDCL)
14. IRCON International Ltd. (IRCON)
15. Kudremukh Iron Ore Co. Ltd. (KIOCL)
16. Lubrizol India Ltd. (LIL)
17. MMTC Ltd. (MMTC)
18. Madras Refineries Ltd. (MRL)
19. National Aluminium Co. Ltd. (NALCO)
20. National Fertilizers Ltd. (NFL)
21. National Mineral Development Corporation Ltd. (NMDC)
22. Oil India Ltd. (OIL)
23. Power Finance Corporation (PFC)

24. Power Grid Corporation of India Ltd. (PGCIL)
25. Rashtriya Chemicals and Fertilizers Ltd. (RCFL)
26. State Trading Corporation of India Ltd. (STC)
27. Telecommunications Consultants (India) Ltd. (TCIL)

Category-2

28. Educational Consultants (India) Ltd. (ECIL)
29. Ferro Scrap Nigam Ltd. (FSNL)
30. HMT (International) Ltd.(HMTIL)
31. Hospital Services Consultancy Corp. (India) Ltd. (HSCCIL)
32. Indian Medicines Pharmaceutical Corpn. Ltd. (IMPCL)
33. MSTC Ltd. (MSTC)
34. Manganese Ore (India) Ltd. (MOIL)
35. Metallurgical & Engineering Consultants (India) Ltd. (MECIL)
36. National Film Development Corporation Ltd. (NFDC)
37. PEC Ltd. (PECL)
38. Rajasthan Electronics & Instruments Ltd. (REIL)
39. Water & Power Consultancy Services (India) Ltd. (WPCSL)

INDIA: COUNTRY STUDY ON PUBLIC ENTERPRISE BOARDS*

R.K. Mishra

The performance of public enterprises (PEs) has emerged as a key determinant to the success of planned economic development in India. The boards of management ought to set the tone and tenor for high performance in PEs. This chapter considers how far they have in fact done so. It is part of a broader study of PE boards of management initiated by the Working Group on Public Enterprise Management Education and Training of the International Association of Schools and Institutes of Administration (IASIA), and it follows broadly the guidelines established by the IASIA Working Group for the country studies.

The scope of this chapter has been restricted to PEs set up by the Indian central government.

Profile of PEs

India has followed the mixed economic model for its economic development. This has resulted in the emergence of a variety of PEs across different sectors of the economy. At the commencement of the first Five Year Plan (1951), there were 29 PEs established by the central government. At the end of the 31Str March 2005, this number had increased to 245. The investment in these enterprises during this period increased 20,000 times – from Rs.5 crores (1 April 1951) 3,57,849 crores 31st March 2005.

The enterprises under construction during 31.03.05 held a 1.84 per cent share of the total PE investment, enterprises producing goods held a 58.97 per cent share of this investment, and enterprises rendering services held a 39.17 per cent share. The producer enterprises in the steel, coal and lignite, power and petroleum sectors held about 73 per cent at this time. At the same time, the enterprises employed about 16.93 lakh people, particularly in the shipping, airlines, technical consultancy and contract service areas showed considerably higher per capita earnings than did the manufacturing PEs. The growth in average wages of PE employees was faster than the growth in the average all-India consumer price index.

**** This forms a part of the broder study on Public Enterprise Boards around the world brought out by International Association of Schools and Institutes of Administration, Brussels***

The top PEs (see Appendix A) in 2004-05 accounted for 51.79 % of the total PE investment. The investment in the lowest 10 enterprises accounted for less than 0.10% of the total investment. These top 10 enterprises then provide more than 50% of the total employment of all PEs , and accounted for 66.91% of the total sales in 2004-05. The lowest 10 enterprises had a turnover of less than 1% of the total turnover by PEs during the same period.

Of the total investment of Rs. 3,57,849 crores in the 245 enterprises at 31 March 2005, the central government had invested an amount of Rs. 44,311 crores by way of equity. By way of debts, at that date the central government had invested Rs.249,794. The outlay of the government on both the revenue and capital account was Rs.4,000 crores, which was 10% of total budgetary allocations.

PEs in India constitute a formidable segment of the Indian economy. There is no denying the fact that the effectiveness of the production-consumption-savings-investment cycle hinges to a large extent on the performance of these enterprises.

Types of boards: legal status, composition, operating organisation

Types of boards

The matter of the types of boards to be used in Indian PEs attracted a great deal of attention during the 1950s and 1960s. The First Industrial Policy Resolution in 1948 indicated a preference for functional boards comprised entirely of full-time members incharge of particular branches of the work. This policy pronouncement was influenced by the success of one-man boards in the USSR. The Damodar Valley Corporation Act 1948 specifically provided for the functional board. The Gorwala Committee on the Efficient Conduct of State Enterprises was not opposed to the idea on Parliamentary Supervision over State Undertakings recommended the setting up of mixed boards having a blend of full-time and part-time members, the former having specific fields of responsibility without being heads of departments and the latter being men of wide experience to bring fresh air into the organisation with a more detached view (Krishna Menon 1969, p.19). This recommendation was endorsed by the Administrative Reforms Commission on Public Sector Undertakings (ARC 1966, p.p66-9).

The Economic Administration Reforms Commission (also known as the Jha Commission), in its report on “Top management and Boards” (Jha 1985), and the Committee to Review Policy for Public Enterprises (also known as the Arjun Sengupta Committee : 1984) also expressed their support for the setting up of mixed boards. However, the Expert Committee on Public Enterprises on General and Important Issues Relating to Public Sector Management and Performance (also known as the Mohd Fazal Committee) went further, suggesting the substitution of policy boards containing both part-time and full-time members none of whom were responsible for specilised functions, for the full-time boards comprising executives heads of departments (Fazal 1982, pp.9-10). The policy boards were preferred in India to strengthen the principle of collective responsibility. As PE s interface with a vast number of agencies and face a multitude of controls, the policy-makers thought it appropriate to go in for policy boards. In a decentralised society, where economic and political decision-making is made at different levels and by different organs, the policy boards has now triggered a debate over the need to have the two-tier boards in states of the Indian Union, viz. Andhra Pradesh, it was decided in 1983 to restructure state level public enterprises (SLPEs) and one of the measures then contemplated was the setting up of two –tier boards. This thinking, however, did not fructify).

Sargent Florence suggested nine types of work for boards of directors :

1. deciding the rate of dividends to be declared on the ordinary shares;
2. proposing any new capital structure;
3. reviewing and "checking upon on" the working of management;
4. asking discerning questions to the management;
5. appointing top managers and if necessary dismissing them;
6. forming a link between different companies by interlocking;
7. determining the salary and other emoluments of the top management;
8. organising new posts at the top of the management structure; and
9. deciding on general lines of policy such as what to make, how much of it, at what price and with what investment (Florence 1981, p.p.81-2).

There has been considerable thinking along these lines about the role of PE boards in India. S.K. Paranjape differentiated between the main and subsidiary functions of the board (1963, p.127). According to him, the main functions of the board should include (1) appointment of the principal executive person and laying down the structure of the organisation, (2) laying down policies and targets in respect of output, prices and costs, salaries and wage structure, incentives, personnel, labour relations, sales and public relations, (3) maintaining liasion with government and parliament (4) preparation of expansion schemes in consultation with higher authorities and arranging for their execution, and (5) reviewing the operations of the enterprises continuously and revising policies and programmes as necessary. Laxmi Narain has identified the board's function as trusteeship and entrepreneurial as distinct from executive (1988, pp.152-5). He divides these trusteeship and entrepreneurial functions of the board into four broad categories:

(a) establishment of basis policies including questions of general strategy;
(b) decision on major financial matters;
(c) selection of key personnel; and
(d) receiving reports on the working of the enterprise and passing judgement upon them.

The Government of India formulated its policy about the functions of boards of management in PEs in the mid – 1970s (BPE 1979, pp.68-77), stating the following to be their major tasks:

<u>Production Management and Materials Management</u>

(1) Setting of targets of production in terms of quantity and value for the plant as a whole as also for the consistent sections.
(2) Review of the actual production vis-à-vis targets and identification of the principal major causes / factors responsible for shortfall, determination of the trends and also the short and long-term corrective measures.
(3) Evolving of the overall productivity ratios of the enterprise as well as of the plants and sections and examination of the actual performance in terms of those ratios and taking of suitable corrective measures.
(4) Prescribing standards of equipment utilisation, maximum permissible equipment down time and maximum costs of maintenance as also examination of the actual performance against these standards and initiation of corrective action.
(5) Laying down broad targets of levels of inventory in terms of costs and months of stock for different groups such as production materials, maintenance spares, material-in-process, finished stock etc., and measuring the actual performance by these yard-sticks at fixed intervals and taking corrective steps.

Financial Management

(1) Organisation of a competent Finance Division at the time of the project stage itself.
(2) Specifying the matters which may have to be reserved for the concurrence of the Finance, and also which need to be reserved for consultation with the Finance.
(3) Laying down of procedures to ensure that expenditures beyond the prescribed limits are not incurred, and where sanction of Government is required, the same is obtained before incurring the excess expenditure.
(4) Review of monthly profit and loss account and a cash flow statement.

Construction Management

(1) Ensuring that abnormal delays do not occur in the completion of projects and construction costs do not escalate beyond normal limits.
(2) Institution and critical examination of periodical reports from management furnishing information on the actual progress of construction, highlighting delays that have occurred or are anticipated, likely effect of the delays on the overall targets and the steps proposed to be taken to obviate or minimise the effect of such delays.
(3) Proper phasing of construction of residential accommodation and staff amenities.

General Management

(1) Ensuring that the organisational planning is done taking into account the profit centres and the responsibility centers and the communication systems within the enterprise.

(2) Ensuring that no managerial gap develops at any level by location in time suitable talent and keeping in touch with the government.

(3) Ensuring continuous training at the induction stage followed up by refresher courses for managers at various levels.

(4) Formulation of rational and objective system of appraisal for managers including an appropriate incentive scheme as also a system for disincentives.

(5) The institution of modern information and reporting system, to facilitate the communication within the enterprise and also top management control.

(6) Streamlining the marketing organisations of the enterprise covering the market research units, sales organisations, evaluation of sales performance, sales promotion efforts (like advertising media, sales incentive schemes, financial incentive systems, entertainment allowance, etc.), training and development of marketing executives and formulation of long-term marketing strategies.

The question as to how the structure of boards could be rationalised has also received the attention of government. It has instructed the administrative ministries to pursue the following guidelines:

1. For large multi unit enterprises and large trading organisations, the typical structure of a Board could be a full-time Chairman-cum-Managing Director assisted by at least two functional Directors, one of whom would be in-charge of Finance, and part-time Directors. As regards the inclusion of General Managers of constituent units and executives in charge of different regions in the Boards of multi-unit or multi-regional enterprises, inclusion of a few General Managers and Directors by rotation could be considered. Even if all the General Managers are not made Directors, those left out, should also, in principle, be invited to attend and participate in all the Board meetings. It is, of course, understood that in certain situations, they may not, for good reasons, all be invited to a particular meeting.

2. A typical structure of a Board for the smaller enterprises could be a Chairman-cum-Managing Director with one and possibly even two senior officers of the undertaking itself as functional Directors together with some part-time Directors. One of the functional Directors could, if necessary, be designated as Executive Director or Director (Co-ordination), should the burden on the Chairman-cum-Managing Director be too heavy.

3. In the case referred to in (1) and (2) above, there should be no bar to the appointment of a part-time Chairman, if in particular cases this course appears desirable. In such cases, a suitable whole-time Managing Director should invariably be appointed.

4. The number of part-time non-official Directors on the Boards of multi-unit and multi-regional Public Enterprises may be about one-third of the total strength, which may be of the order of 12 to 15. In relatively smaller enterprises, the Board strength should be between 8 and 12, including official and non-official part-time Directors, the number of the later being about one-third of the total.

5. The policy regarding appointment of full-time Chairman / Managing Directors / Functional Directors from out of the "panels" being prepared by the Empanelment Selection Board in accordance with the Prime Minister's directive, should be followed without exception to ensure maximum utilisation of the panels. The aim should be for the enterprises themselves to generate their own top executives at this level also, who should, therefore, be screened by the Empanelment Selection Board before considering empanelment of Government servants and men from private enterprises.

6. Appointment of Government representatives on the Boards should ordinarily be restricted to the dealing Joint Secretary / Director, but in the case of some Ministries, other officials within it might be chosen so as to constitute a Management Coordination Cell, as proposed to be done in the Ministry of Industrial Development and Internal Trade or to meet the conditions about the number of directorships held by each officer.

7. With regard to part-time Directors, as an interim measure, the services of those from the private sector, who have volunteered for full-time appointment in Public Enterprises and considered fit and empanelled to hold such top level posts in Public Enterprises may be advantageously utilised. A comprehensive list of those considered suitable for appointment as part-time Directors will, in due course, be prepared and circulated, it being understood, however, that discretion would be available to appoint those outside the list, where necessary. The final decision on the question of representation of workers on the Boards of Industrial Enterprises being pursued by the Department of Labour and Employment will also be relevant in this context.

8. On the question whether Government representatives on the Boards of Public Enterprises should necessarily include a representative of the Finance Ministry, while Finance Ministry representatives may be appointed to the major Public Enterprises, the relatively smaller enterprise may do without representatives of the Finance Ministry. In such cases, however, where there is no representative of the Finance Ministry on the Boards, the undertakings should ensure that the concerned Financial Advisers (Heads of the respective Expenditure Divisions in the Finance Ministry) receive, sufficiently in advance of the Board meetings, the agenda papers, as also the minutes of the meetings. This will enable the Finance Ministry to keep in touch with the activities of the enterprise.

9. The policy decision in regard to the exclusion of Members of Parliament in the Boards of Public Enterprises, which is based on the recommendations of the Krishna Menon Committee should remain unchanged.

In fine, the boards have been assigned wide-ranging responsibilities and their sincere discharge of the responsibilities is very vital to the effective functioning of PEs.

Legal Status

The first Industrial Policy Resolution adopted in 1948 declared that PEs in India would be organised as public corporation. The public corporation form was preferred in view of the special obligations required to be fulfilled by PEs. These special obligations demand that PEs should be different from private corporations in that they were required to strike a trade-off between social and commercial objectives. This trade-off contained an element of both good business practice and the absence of profiteering. The choice for public corporations was guided by the experience in the United States, where they were preferred as they were clothed with the power of the state and possessed of the flexibility of the private Industrial Policy Resolution of 1956 which pointed to the need for incorporating PEs in the form of public corporations so as to provide the requisite autonomy and at the same time allow an appropriate degree of control over them. The Administrative Reforms Commission accepted the logic in favour of public corporations.

Notwithstanding, in practice the government has opted almost entirely for the government company form of organisation. The reasons given for such a departure from declared intention relate to the operational advantages flowing to PEs from this form of organisation as reflected in executive flexibility and freedom of action pertaining to materials, personnel and financial decisions. The Comptroller and Auditor-General of India has strongly criticised this departure. He has pointed out that, of the 244 public enterprises owned and managed by the central government, 234 are government companies and only 10 public corporations. Whereas in some countries there is a master Public Corporations Act (or equivalent), there is no such act to guide the setting up of PEs in India. There is not even a separate Public Enterprise Act. The 10 statutory corporations have been the creations of different and unconnected enactments, except that the two air corporations, Indian Airlines and Air India, were set up under a single Indian Air Corporations Act (1953).

Composition of Boards

The composition of boards has been an intensely debated issue: there have been differences in the opinions expressed by experts, official and non-official agencies and researchers during the last four decades. Though a broad structure in respect of boards has emerged over the last 10 years, the principles governing their composition have kept on changing. As well as the issue of whether there should be part-time boards, full-time boards or mixed boards, the relevant discussions have related to issues such as:

- Interest representation including representation of labour, consumers, suppliers, government collaborators, civil servants, and members of the central and state legislatures;

- The size of board;
- The age profile of board members and their backgrounds.

The Gorwala Committee suggested that the type of board adopted should be determined by the nature of the PEs business and its legal status. It prescribed policy boards for enterprises being run as joint stock companies. As regards the whole-time and part-time members, the committee considered the criterion of the availability of suitable people as the acid test. The inclusion of the departmental men was advocated to ensure liaison with the government. It was suggested that the size of the board should be determined by the business to be done in the case of PEs with a preponderance of part-time directors, large-size boards were suggested. A tenure of four to five years was adjudged reasonable for board members. The Krishna Menon Committee was opposed to appointing men drawn from public life who would not think deeply about the board's concerns and who would have many other, often rival interests. The committee did not agree with the idea of placing civil servants on PE boards: the reasons given included the small amount of time such appointees could devote to the PE's affairs, and the fact that it could lead to preferential treatment to government departments. The committee also discarded the suggestions for the nomination of members of parliament and state legislatures. The Parliamentary Committee on Public Undertakings suggested small boards with a membership between five and nine according to the size and nature of the business. While laying down no uniform pattern, this committee suggested that boards in PEs should comprise financial experts, administrative talents and technical skills, representatives of labour, and people with expertise in personnel.

The Administrative Reforms Commission added its voice to those opposed to the appointment of civil servants to PE boards. It found that the civil servants came as birds of passage, with their interests and hearts outside the organisation. It observed that, in some cases, such directors served as part-time members on the boards of as many as 15 to 20n undertakings. It therefore recommended that the number of government members on each board should be restricted to a maximum of two. The commission was not against the institution of the part-time board but it wanted only non-official part-timers whose interests did not clash with the interests of the PEs themselves. For the full-time boards, the commission suggested a conscious effort on the part of PEs to accord a preference to persons coming up from within the undertakings. The commission opined that the practice of having part-time government directors in the PEs dealt a blow to the concept of the autonomy of PEs as the very presence of the government directors on boards had an inhibiting effect when proposals were being framed – they then tended to be framed not in terms of what the enterprises considered to be in their best interests but in terms of making them acceptable to these civil service directors.

The Jha Commission was in favour of having part-time boards. It saw full-time boards as simply the internal committees of management in PEs. It suggested mixed boards, with a minimum of three functional directorships (regardless of the size of the organisation), representing finance, personnel or industrial relations, and marketing or research and development. For large-sized enterprises, the commission suggested the appointment of more functional directors such as the director of production, director (technical), director (Projects), etc. It suggested that the appointment of more functional directors should be a one-time exercise by the Public Enterprises Selection Board (PESB) in consultation with the administrative ministry concerned to determine the number of functional directorships and the functions to be covered in each field, with a biennial or triennial review thereafter. It also felt generally that government officials on boards would tend to inhibit the functioning of the enterprises as autonomous organisations, and therefore suggested that there should not be more than two officials in any case.

For the purpose of curbing excessive government representation, the Jha Commission drew a distinction between the truly representative directors and other directors. The representatives of the administrative ministry and the Ministry of Finance were included in the first category and those coming from the other ministries and government agencies were considered as belonging to the latter category. The commission observed that the induction of such interest or concern into boards could cause conflict of interest and was not conducive to the smooth and harmonious functioning of boards. For integrating the personalities of the government directors with the personality of the board, the commission suggested evolving proper understanding and clear enunciation of the areas in which the board could be the deciding authority and those in respect of which the board's views were essentially recommendations to government. In respect of the former, the commission wanted the government directors to identify themselves with the objectives and goals of the enterprise and their participation in joint thinking on equal terms with the fellow directors. On the other hand, in respect of matters requiring government clearance, it wanted the government directors to help boards in shaping their proposals or recommendations in a manner which could take care of the concerns which government would have in mind when constituting them. The commission then wanted the government directors to get government support for board requirements and provide for coordination between the enterprise and the government.

As regards the size of the boards, the Jha Commission laid down certain principles designed to ensure overall balance. For a medium-size PE, the commission suggested a board consisting of three to four full-time functional directors including the chief executive, two government directors and three or four other part-time directors. For the part-time members, it wanted only such persons who could contribute to the professional, managerial and decision-making processes of the board. For the purpose of stability of PE boards, the commission suggested the determination of a fixed number of part-time directors should be prepared by the government, drawn from experts in management, accounting, economic science, the teaching profession, professional bodies, and scientists and research institutions, to be available for consideration when vacancies occurred. The commission found it necessary to make a provision for the inclusion of worker's representatives in some of the boards. It frowned at the then-prevailing pracitce of having one-year boards, as such boards could operate effectively only for a few months up to the next annual general meeting. To prevent the phenomenon of truncated boards, the commission wanted part-time directors to be given a tenure of three years along with the adoption of the system of rotational retirement of directors.

The Arjun Sengupta Committee turned away from any suggestion that government directorships on boards should be discontinued. To quote the committee:

> The institution of Government Directors should continue as, in general, they are a positive source of help and mediation between the Government and the enterprises. It should, however, be ensured that officials nominated as Government Directors had adequate experience of public enterprises. Where this is not so, such officials, before being nominated to the Board, should be given orientation for a sufficient period in one or more public enterprises under the charge of the Administrative Ministry concerned. In our view wherever Holding Companies are being formed, the appointment of Government Directors should be restricted only to the Board of Directors of the Holding Company. The subsidiaries of the Holding Company need not have Government Directors on the Boards.

The Committee on Public Undertakings in its Report on Structure of Boards of Management of Public Undertakings preferred the adoption of mixed boards. It suggested that about one-third of members of boards should be MPs, that a member of the board should not be associated with more than two PEs at a time, and that the tenure of MP board members should be three years. It was against the nomination of persons who were not acquainted with the requirements of an industry of an industry or trade or economic operation relevant to the activities of the PE board to which they were being appointed. The committee expressed resentment about government officials on the boards of several PEs "dittoing" the government line. It suggested that boards should include, besides the chief executive, functional directors, non-officials and part-time government directors as well. The committee thought seven to 11 directors was appropriate for a medium size board, and wanted to bridge the gap between the minimum and maximum number of members on PE boards. It pointed out that, in 39 cases studied by it, this number varied between a low of four and high of 15. It was against excessive lading of boards by heavy weight government officials, and found that the boards of Water and Power Development Consultancy Services India Ltd., Telecommunication Consultancy India Ltd., Cotton Corporation of India, Hindustan Cables Ltd and National Instruments Ltd had only official directors, numbering between four and 12, and that they were thereby reduced to the status of interdepartmental committees of government and nothing more. Such examples led the committee to stress the need to have board-based boards of directors composed of various interests (except from the private sector). It found that the Financial Adviser of the Ministry for Industry was included on 11 boards and the Additional Secretary of the Ministry of Industry was on the boards of 12 PEs. The committee was against the appointment of persons connected with a large number of private companies, especially concerns in competition.

Laxmi Narain points out that many of the government directors do not contribute positively: they try to dominate boards and do not act as members of a team entrusted with the efficient management of a PE. His study of PE boards, commissioned by the Standing Conference of Public Enterprises (SCOPE) points out that at 31 March, 1989, the average size of boards of 101 PEs investigated hovered around 7.74. The part-time non-official directors numbered less than two on average; on average, the numbers of directorships held by officials and non-officials were in rounded terms two and one respectively. In another study Nigam pointed out that there were only a handful of MPs on the boards of directors of PEs; the percentage of part-time directors was well over 80, whereas the number of labour representatives was found to be too small. The institution of executive directors was yet to emerge. The size of boards in Indian private corporations hovers around eight.

A background survey of members of PE boards shows that more than 60% have urban backgrounds, the rest coming from rural areas. One of the reasons why the corporate offices of PEs are located in urban areas is the high concentration of executives having this urban background. In terms of regional background, some states dominated the boards: out of the 25 states in the Indian Union, more than 50% of directors came from Uttar Pradesh, Tamil Nadu, Andhra Pradesh and Karnataka because of the concentration of large numbers of PEs in those states. The age group for all directors fluctuates between 46 and 50. However, in the category of chief executives, the modal age ranges between 51 and 60. The modal age group of functional directors is 46 to 50. For civil servant directors, the modal age group is 41 to 50. Educationally, the board positions are manned by persons who have a good deal of professional and technical expertise. About 80% of members have at least a bachelor's degree, and official directors do still better on this account. In terms of career, most members either come from government service or represent technical, management or teaching professions. More than 50% of the civil service directors come from the Indian Administrative Service (IAS). The parents of most of the directors come from non-agricultural backgrounds. The gross annual income of the directors is far higher than the national per capita income. A good number of non-official and official directors have had foreign travel. More than two-thirds of the directors do not participate in socio-cultural activities. The women members on the board are very few in number.

Operating Procedures

PE boards in India are competent to establish subsidiary standing and ad hoc committees. The subsidiary standing committees include executive, budget and audit committees. The ad hoc committees are appointed to deal with emergent matters such as labour conflicts and welfare issues. The executive committee acts on behalf of boards in specified matters. In most cases, the decisions of such a committee have to be ratified by the full board. The executive committee reviews the operating results as Hindustan Machine Tools, National Coal Development Corporation and Hindustan Steel used such committees in the past, but have now discontinued the practice. On the face of it, the setting up of such committees appeared to be an excellent way of transacting business but experience did not prove this true. To quote S.S. Khera:

> When there is a standing committee empowered and made responsible for the whole of the functions and management responsibility of the board, the board tends to get frustrated and to be left on one side. At the same time all semblance of board responsibility disappears. In effect, while the appearance is of a strong

mixed board, the reality often is that a caucus of two, three or four people are taking all decisions on behalf of board and binding the board members to them. The chief executive of an enterprise having such a committee inculcates the feeling as to whether he is there to deal with the committee or is he there to deal with the board.

On the whole, the standing committee system has not worked will in Indian PEs. The ad hoc committees are given specific tasks on behalf of the board and have done extremely well in contrast to the executive committees. Such committees have been set up by various boards to select employees to go abroad for further training, recruit engineers, design a township, resolve conflicts with workers or a section of workers, assist the board in deciding about the plant acquisitions, etc. The Bharat Heavy Electricals Ltd., Mishra Dhatu Nigam Ltd., State Trading Corporation, Steel Authority of India and many other PEs have set up such committees, and many of them have been used in dealing with major negotiations in relation to tenders and in reporting to the board in the case of important contracts. In fact, the working of these committees suggests that there is room for an extensive use of this instrument to make board operations more effective. It is important to note here that the private corporate sector in India has also made extensive use of this instrument. In recent years, the private corporate sector has also increasingly used audit sub-committees as permanent organs of governing boards.

The management boards of PEs must meet at least four times a year, the requirements for the minimum and maximum number of meetings that the board should have being specified in the articles of association / act of incorporation of an enterprise. It has been found that board members are not very regular in their attendance. The Committee on Public Undertakings noted that in some cases board meetings were thinly attended. In the case of Central Fisheries Corporation Ltd., Central Indian Water Transport Corporation, International Airport Authority of India, Hindustan Zinc Ltd., and Industrial Development Bank of India, the ratio of the number of directors attending the meeting to the total number of directors fluctuated between 21% and 63%. Not only did the non-official directors absent themselves regularly from the meetings; the official directors also attended meetings casually. In the case of Central Fisheries Corporation Ltd., which had two officials on its board, both officials were absent on a number of occasions between 7 April 1971 and 12 December 1977. There has been a marginal improvement during recent years. Appendix B shows the number of meetings attended by various categories of part-time directors during the period April 1988 to March 1989. It shows that government directors attended 75% of the meetings, non-officials 66% of the meetings and nominees of financial institutions 66%.

The chief executive of an enterprise sets the agenda for board meetings. Since many of the agenda items need to be there because of legal and statutory compulsions, the chief executive has not much discretion in this regard. However, a number of items are included at the suggestion of board members, financiers, collaborators, employees and internal management. There is no hard and fast rule regarding the minimum and maximum number of items on the agenda. The number of board meetings, the number of transactions that were held between board meetings, and so on. The number of items on the agenda normally ranges between three and 50. Most of the items do not get sufficient time for discussion and consequently a good number of items are simply passed off or deferred. Important items are relegated to a secondary position quite often. In each board meeting, the performance of the enterprise in physical and financial terms is necessarily reviewed. This review takes into consideration some key performance indicators such as capacity utilisation, production in physical units, profitability status, cost control, inventory position, working capital applications, cash flows, etc. The decisions are arrived at mostly by the process of consensus. Normally voting is avoided. In exceptional cases there is voting – open or secret. The circumstances in which voting has been required pertain to the acquisition of materials and plant, selection of tenderers, appointment for top positions etc. The minutes of the meeting are prepared by the corporation secretary.

Role of Boards and Functions Appropriate to its Discharge

The boards of management are perceived as the executors of policy conceived by the government. The role of PE boards, therefore, differs from the role of their counterparts in the private sector. Boards of management in the private corporate sector are free to formulate their policies and targets in accordance with socio-economic requirements enunciated by policy-makers in plans, corporate laws and economic and social legislation. The PE policy, on the other hand, is a sub-set of public policy whose major concerns are growth, equitable distribution and productivity. The Planning Commission evolves both physical and financial targets for the public sector with the help of the various ministries. The commission takes cues in policy-making from theh parliament and from SCOPE. The implementation of PE policy is overseen by the Comptroller and Auditor-General of India, various administrative ministries, cabinet committees on appointments and economic affairs, the Public Investment Board, the Public Enterprise Selection Board and the Department of Public Enterprises. PE s act more-or less as executive agencies and could at best make suggestions for refinements in public policy relating to PEs. The role of PE boards, therefore, boils down in effect to translating government policy through budgets and corporate plans. The Bureau of Public Enterprises (BPE) in 1982-83 made it obligatory for PEs to make annual plans and urged them to prepare corporate plans and prospective plans. Almost all PEs now prepare corporate plans, though the quality and machinery for their formulation differs from undertaking to undertaking. The boards review the progress of PEs and make suitable recommendations. Statutory and internal audit reports are obtained by boards and ratified in due course in the annual general meetings of the companies (the statutory corporations do not have annual general meetings).

It is worth noting here that, despite the boundaries drawn for the functioning of the boards, their effectiveness is influenced very largely by their chief executives. HMT Ltd is a case in point. With Muthulla as the chief executive of the enterprise and Khera on the board as chairman of Hindustan Machine Tools ltd., the enterprise took a great leap forward on all fronts, setting up new plants, increasing its market share, growing investment, a positive government-PE interface, and good productivity, production, profitability, quality, attitudes of personnel and corporate culture. The same enterprise, in the absence of such a duo, has lost its glamour. With Mohan Kumar Mangalam as the Minister for Steel and Mines and P.R. Billimora as the chief executive, Steel Authority of India Ltd was able to experience a phenomenal growth in capacity expansion, and good production, government-PE interface, backward and forward integration, and morale and culture-building in employees, etc. The boards of these PEs were imaginative in thinking and bold in action. They could not only define the corporate objectives. They could not only formulate their business plans but also successfully communicate the plans to employees at all levels within the organisation. One and all shared the information and had the feeling of owning the enterprise goals. The boards monitor performance against plan and give suggestions to the operating management to iron out variations between the plan and achievements.

One shortcoming of the boards of management of PEs is that they have performed neither their “buffer” nor their “bridge” roles satisfactorily. In fact, there have been cases when members of the boards openly criticized the decisions taken collectively and aired their differences in public. In the late 1980s, the board of Air India was involved in such a game.

Boards do not play any role in the selection or appointment of the chief executive or in fixing their remuneration. They can not dismiss the chief executives, as the chief executives are appointed on the basis of the recommendations of the Public Enterprise Selection Board (PESB), and usually serve as board chairmen.

Selection, Appointment and Role of Chairpersons

The selection, appointment and role of the chairperson is important from the point of view of the effective functioning of an enterprise.

Selection

According to the existing convention, PEs in India have a single chairman and managing director who functions as chief executive. The posts of the chairman and managing director have been combined. However, there are some exceptions where an enterprise has both a chairman and a managing director. In such cases, the chairman is mostly a part-time incumbent and the managing director is a full-time official. However, there are some exceptions where both the separate chairman and the managing director are full-time officials. The Food Corporation of India is a case in point. The institution of part-time chairman and full-time managing director is applicable in the case of PEs involved in mass public dealings. The Administrative Reforms Commission in its Report on Public Sector Undertakings supported the idea of combining the two posts of chairman and managing director, whereas the Committee on Public Undertakings opposed this idea in its Report on the Structure of Public Enterprise Boards. The general view is that the merger of the two posts has cut red tape and helped in expeditious decision-making and reduction of costs.

Appointment

Up to August 1974, the appointments of the chairpersons used to be made at the recommendation of the administrative ministry on a case-by-case basis. But, since August 1974, the appointment of the chairperson is done at the recommendation of the PESB. This board is charged with the responsibility for suggesting suitable names to the Cabinet Committee on Appointments for appointment to the top-level posts in PEs. These include posts of part-time chairman, full-time chairman and managing director, and also questions about extension of their tenures. The responsibility for selecting the general manager rests with governing boards. PESB was set up as a sequel to the recommendations made by the Public Enterprise Management Cadre Committees (headed by P.L. Tandon) which came into being by decision of the Committee of Secretaries appointed by the government in 1969. The Committee of Secretaries was asked to advise on the recommendations made by the Administrative Reforms Commission on appointments to top-level posts in PEs. This committee also took note of the suggestions made by the R.C. Dutt Committee which examined the working of the Industrial Management Pool, which was set up in 1957 on the recommendation of the Estimates Committee to select executives to manage commercial and industrial public activities.

PESB comprises six members. The Secretary, Department of Public Enterprises, is an ex-officio member, and other members are drawn from the Ministry of Industry, concerned public enterprises and government departments. The post of chairperson of PESB goes to an eminent PE executive or senior civil servant. PESB is serviced by the Department of Public Enterprises. For appointments to the post of the chairman / chairman-managing director / managing director in PEs, the chairman of the PESB and the secretary of the concerned administrative ministry and all members of the PESB constitute the selection committee. The PESB Secretariat then scouts for suitable candidates from various sources and from its data bank. After screening, a list is drawn up for approval by the PESB chairman. PESB prefers to select internal candidates from PEs provided their ratings measure up to the best of the total candidates. In case there are no internal candidates suitable for appointment, a candidate from another PE is preferred. Failing these two sources, selection is extended to candidates from other sources like government departments, the private sector, etc. PESB prepares a panel of names of two or three candidates considered suitable for appointment, listed in alphabetical order and not in the order of rank. This panel is forwarded to the Cabinet Committee on Appointments through the minister in charge.

Appointments are now made normally for a period of five years or till the age of superannuation, whichever is earlier. Earlier, the tenure was restricted to two years. The performance of chairpersons is reviewed by the administrative ministry after they complete one year of their tenure. Their continuance in the posts and completion of tenure are based on this review. The meetings of the selection committee appointed by the PESB take place two or three times a month. As mentioned earlier, the PESB maintains a data bank. Government officers can get their name included in this data bank by forwarding their bio-data in the prescribed form.

There are problems both with salary levels (the remuneration of chairpersons is just half of the maximum ceiling allowed for their counterparts in the private sector) and with speed of appointive action. In many cases, even after identification of the chief executive, it takes months for the minister in charge and the cabinet Committee on Appointments to clear names. As at 3 March 1989, the posts of 30 chief executives were vacant. As at 31 March 1988, 24 posts of chief executives were lying vacant. On 31 March 1987, this number stood at 29. The position pertaining to full-time directors who are also members of PE boards is equally discouraging. On 31 March 1989, 65 posts of full-time directors were vacant. On 31 March 1987, this number stood at 62.

In the studies it commissioned on board of directors in PEs, SCOPE (the Standing Conference of Public Enterprises) has noted more than once the phenomenon of toplessness in PEs. This organisation comprises the chairman-cum-managing directors of all the central PEs and is a non-official institution. It was set up as a registered institution by the PEs themselves in 1970. It is a competent body and sends its views on the various matters pertaining to PEs. It provides a mechanism for dissemination of information and knowledge on the various aspects of PEs to the executives of these enterprises. It publishes a monthly Newsletter on the activities of the member organisations and commissions studies on topical problems of PEs.

On 31 March 1989, there were only 13 chief executives who had completed service of 60 months or more in the 101 enterprises reported to SCOPE by Laxmi Narain. There are some disqualifications for one being considered for the posts of chief executive in a PE. According to the law of the land a lunatic, an insolvent and a person below the age of 21 years could not be appointed as chief executive. Further, he must have a considerable experience of managing enterprises in the same line of operation. He should not have business relationships with organisations which could damage the interests of public enterprise. Normally, an incumbent is not appointed as chairperson of more than one PE. However, in the case of a holding company, the chief executive becomes an ex-officio chairman of the subsidiary by virtue of the provisions contained in the Companies Act 1956. Mohan Kumar Mangalam, who introduced the holding company concept in the public sector, had combined the posts of chief executive and secretary of the concerned department. This arrangement was subsequently quashed. The chairpersons of PE boards are allowed to serve on socio-economic organisations and expert committees appointed by the government. They are also permitted to serve on the boards of related PEs. As discussed earlier, the selection process for the chief executive has been devised in such a way that formally political influences could be avoided without any difficulty. However, a peep into the selection process reveals that there are cases where some persons are picked just because they have proximity to the seat of power.

Role and Functions of Chairpersons

One formal role of chairpersons in the PEs is to act as a "buffer" between boards and internal management. They have also to interface with government. As heads of the organisations, it is their duty to achieve the corporate mission of the enterprise. In case of any financial misdeeds, they are liable to be dismissed by the government. Moreover, the government, in the best interest of the public as it sees that interest, could terminate ex-parte their services. In the case of non-satisfactory performance, the government could exercise its discretion not to renew their term. The chief executives and their personnel moving forward in accordance with its central purpose. They perceive themselves as persons charged with the responsibility of gaining the acceptance of the different stakeholders in the enterprises. They consider the art of striking the trade-off between social and economic objectives as the most important part of their jobs. With the reforms sweeping PEs in India, they need to perform this task in such a manner that not only the basic social objectives are fulfilled by the enterprises but also their competitiveness is enhanced in the market in economic terms.

Most of these people come to PEs because of their preference to work in public sector, which gives them some deep personal and psychological satisfaction. But most chairpersons are not happy with the performance and functioning of the PEs. They experience too many pressures, and feel that there is vast scope for the elimination of unnecessary accountability and controls on PEs. However, they also carry the conviction that optimum results have yet to be achieved through an improved internal management system in these enterprises. They face internal interface problems with workers and managers, and do not find a developed self-confident culture in most enterprises.

Selection, Appointment and Role of Board Members

In this section, we examine the process pertaining to the selection, appointment and role of board members in PEs. Their working relationshps and interrelationships have also been studied as a backdrop.

Selection

The selection of members of PE boards of India has been left to the concerned administrative ministries. Such appointments are made after obtaining approval of the Appointments Committee of the Cabinet. Before finalising the proposals, the minister concerned consults the relevant board chairperson and gives due weight to his opininon. The ministry also seek the advice of the PESB. This applies only to the part-time non-official directors. In the case of the part-time government directors, appointments are made on an ex-officio basis by the ministry in charge of the enterprise without referring to the Appointments Committee of the Cabinet or the PESB.

The appointive process has run into rough weather. The administrative ministries are too large, too pre-occupied with fire-fighting functions, and offer little scope for forward planning. This has resulted in PE boards not having the maximum strength of directors on them. Appendix C shows the maximum and existing strength of directors ministry-wise for PEs in India. In the ministries reported, the number of vacancies to the total number of board member positions ranged from a minimum of 30.77% to a maximum of 57.05%. The shortfall is thus considerable.

Appointment

Political considerations weigh heavily in the appointments. It could be safely said that less than 1% of the board members are from the women folk of the country. The disqualifications applicable to the chairpersons / executives are more or less applicable to board members too, and no person can hold a directorship in more than 20companies whether public or private or both. The suggestions of the expert committees range between a low of two and maximum of five for PE board members. They are appointed on a year-to-year basis, and are granted extensions of tenure at the end of each year. Their membership could be terminated at the behest of the administrative ministry even before completion of a year's service. Their appointments are staggered to avoid the possibility of all retiring at the same time.

In so far as remuneration is concerned, they get an honorarium of Rs.250 ($10) for each meeting, and their transport charges are paid by the PEs. There has been sever criticism of this low honorarium in view of the expertise of members and the opportunity cost they incur in attending such meetings. S.K. Chakrabortyhas suggested that the honorarium could be raised to Rs.1000/- ($40) per board meeting and that secretarial assistance worth Rs.6,000/- ($240) p.a. should be given.

Role and Functioning of Boards

A board is collectively responsible for the financial or other misdeeds of the PE it controls, although the penal provisions of the Companies Act 1956 do not extend to members of the board nominated by government. In most cases, directors are not briefed about their responsibilities and roles. What is even more important to be noted is that even the government directors are not briefed properly about the stand they should take in the meetings of boards. In the absence of detailed guidelines, board members function both as trustees and as entrepreneurs. As between the two roles, however, the trusteeship role dominates because board members shy away from taking risks and making decisions. The major impediments inhibiting their effectiveness relate to the lack of adequate information, and cases are legion where board members receive agenda papers just before the commencement of a meeting. There are also many instances where the board discussions are not recorded properly.

Preparation and Training

There is no training system specially designed to prepare board members in India for the effective execution of their roles. The incoming and outgoing members never meet, as the concerned agencies do not take any initiative in this regard. However, some institutions have commenced offering programmes to train some board members. These programmes have been given titles such as "Programme on Role of Government Directors / Role of Nominee Directors". The participants are given legal, financial and managerial inputs. The Department of Public Enterprises, being the nodal agency to coordinate and control PE performance, should come forward and take on the role of educating the members of the governing boards of PEs. This department should also evolve model guidelines about the role, responsibilities and conduct of boards of directors. The present author has organised such programmes at the Hyderabad Institute of Public Enterprises, and has noted that participants from several boards appreciate the value of the inputs supplied to them. They sought periodical exposures to keep them in touch with the latest developments concerning their enterprises. In such programmes, roles were explained at three levels: members of the board, chief executives, and top officials of the relevant administrative ministry. This helped the group considerable in understanding one another's viewpoint, expectation and modus operandi to put plans into action.

Termination of appointments of entire boards, chairpersons, individual board members

In the articles of association governing PEs in the company form, and the provisions of enactments under which public corporations have been incorporated, the government has kept absolute power to itself to terminate the tenure of chairpersons, individual board members or entire boards in the public interest. To give a state example: the board of Rajasthan State Road Transport Corporation was terminated as the chairperson and some board members did not comply with the request of the government to resign. R.P. Billimoria was removed from the chairmanship of the board of directors of the Steel Authority of India Ltd in 1975 after the promulgation of an emergency by the central government. Normally, with a change of government, many chief executives are replaced to pave the way for the appointment by the new government of like-minded persons. V. Krishnamurthy, former Chairman of the Steel Authority of India Ltd, was replaced by S.R. Jain in 1990 with the installation of a new government at the centre. Dharani Sinha, a former member of the board of Air India, was dropped after the reconstitution of the board on account of conflict with both the government and the executive government – he had not been happy with the efficiency of the undertaking or with the lead taken by management to improve upon the performance. He made public utterances about the loopholes affecting the performance of Air India.

No provisions exist for payment of compensation to board members when terminations are effected for reasons other than personal misconduct.

Working relations

The state-owned company boards are required only to the administrative ministries. The agenda papers and minutes are sent to them. Except for the statutory corporations, there is no requirement to report directly to the legislature. The responsibility for dialogue and liaison with the administrative ministry and the other ministries of the government as well as with outside organisations rests on the chief executives.

In the late 1980s, the central PEs started signing memorandums of understanding with the administrative ministries. The MoU specifies the obligations of the enterprise, the resources required to achieve these obligations, the support promised by the government, the performance evaluation criteria, and the weights assigned to each such criterion. By 1990-91, 140 PEs had signed such memorandums. The MoUs are prepared by PE managements, discussed by the boards, and then they are submitted to the administrative ministries. The Department of Public enterprise keeps track of progress in respect of implementation of the MoUs. It awards grades ranging from A to D to PEs based on their performance. It has already been noted that friction between the chief executive and the chairperson in PE boards is unlikely to arise as the posts have usually been combined. It is only in the case of statutory corporations that the posts of chairperson and managing director are held by different incumbents. However, their roles and responsibilities have been so defined that the possibilities of conflict between the two are minimised. (In most state-level public enterprises, however, the two posts are manned by different persons and there have been several instances where the two executives have not related well – to the detriment of the enterprise). Since the two posts of chairperson and managing director gave been combined in most central PEs, the chairman-cum-managing director is treated as the chief executive. It is strange but true that board members formally do not have any role to play on the appointment of the chief executive. The boards could not provide any financial incentives to the chief executive. However, they could always pass a resolution lauding the performance of their chief executive.

There are no guidelines issued by the government regarding the relationship of the chief executive with the chairperson or other members of the board. Similarly, such guidelines do not exist in respect of the relationship of the chairperson and board members with managerial staff at other levels and the rest of the personnel of the organisation.

The role of PEs in India and evaluation of governing boards:

PEs in India occupy commanding heights, and their role in the national economy is very critical. The share of the public sector in the gross domestic product (GDP) has shot up from 8% to 23% between 1960-61 and 1987-88. Available data give sound evidence to the effect that public sector's contribution to the Indian economy is phenomenal. Capital formation is the backbone of the process of economic development, and the share of the public sector in gross domestic capital formation increased from 45.1% in 1980-81 to 48.1% in 1987-88. While considering these figures, it has to be kept in mind that the public sector in India comprises government departments, departmental undertakings and non-departmental enterprises.

It goes without saying that PEs in India constitute a major segment of the public sector. Keeping this as the backdrop, it is apparent that the boards of management in public enterprises have to play an important role in making PEs operate effectively. But PE boards in India have fallen far short of expectations in this regard. They do not appear to have their own personality and they do not seem to be demanding it. Though functions of boards have been very clearly spelt out by responsibilities. There have not been many occasions when board members have made strategic suggestions and helped PEs in turning from bad to good performance. It is not only that boards of management have not provided the desired counsel to the chief executives; it is also that they have failed to give a definite direction to PEs by way of appraising their policies, programmes and action in relation to the objectives for which the enterprises have been set up.

Suggestion for improvement:

A number of measures could be suggested to make the institution of boards of management play an effective role in PEs. For each enterprise, a fresh effort should be made to fix the minimum and the maximum number of board members. The number of functional directors and the areas of their expertise need to be worked out again. The administrative ministries need to prepare extensive panels for selection of board members from various fields. No board member should be allowed to serve for more than three terms. Each term could be of five years' duration. After the selection an awareness course should be programmed for such members, in which their rights and responsibilities should be clearly explained. The interest representation on the board should be confined to labour and collaborators. Politicians and professionals having interests in conflict with those of the PE s should not be appointed on the boards.

Every board member should be given some specific responsibility – which could be done by associating them with different management committees. Their work should be evaluated periodically and their re-nominations should depend on their track record. The number of government directors on the board should be restricted to a maximum of two in each case. The person so appointed should act as a liaison between the board and the government. He should not have any power to over-rule the decisions of the board. The PESB should fill vacancies of PE chiefs well before such posts fall vacant. The ideal situation would be to appoint the successor three months in advance and put him in as understudy to the retiring PE chief. The Cabinet Committee on Appointments should be divested of its powers to approve / select PE chiefs as recommended by the PESB.

A report on decisions taken by the board of directors should be forwarded to the administrative ministry and the Department of Public Enterprises. The boards should decide the plan of action annually and any deviation from this plan should be reported to the administrative ministry and the Department of Public Enterprise. The appointing authority should be empowered to remove PE chiefs when dictated by the public interest. The board members should be given a remuneration of Rs.1,000/- per meeting ($40) and the secretary allowance of Rs.6,000/- ($240). The chief executive and the functional directors should be adequately remunerated. The agenda papers should be received by board members at least a week in advance. Sufficient time should be allotted for the discussion of different items of the agenda, and the practice of voice vote (he who speaks loudest) should be discouraged – formal voting on motions would overcome this. The disqualifications for board members should be laid down in a crystal-clear way, and board members not attending meetings as prescribed by the rules should be dropped without any fuss.

Summing up

To sum up, PE boards are a weak institution in India. There is an urgent need to reform government policy to make this institution effective. PEs in India would register a much-improved showing if their boards of management could play a more effective role.

Appendix A : TOP TEN ENTERPRISES IN TERMS OF INVESTMENT

Sl.No.	Name of the Enterprise	2004-05 (Rs.in crores)
1.	National Thermal Power Corporation	25,670.68
2.	Housing and Urban Dev. Corp. Ltd	21,714.16
3.	BSN Ltd	20,720.89
4.	Power Finance Corporation	20,680.47
5.	Rural Electrification Corp. Ltd	18,476.98
6.	Nuclear Power Corp. of India Ltd	16,993.33
7.	National Hydroelectric Power Corp. Ltd	16,670.31
8.	Indian Railway Finance Corp. Ltd	16,388.06
9.	Power Grid Corp. of India Ltd	16,042.10
10.	ONGC Videsh Ltd	11,961.01
	Total	1,85,317.94

Appendix B:

NUMBER OF MEETINGS ATTENDED BY VARIOUS CATEGORIES OF PART-TIME DIRECTORS FROM 1.4.1998 TO 31.3.1989

Category	No. of persons in the category	No. of meetings held during the year	No. of meetings attended	% of meetings attended
1. Government Directors (officials of Administrative & Finance ministries)	160	787	595	75.60
2. Officials	175	886	465	52.48

other than those in category 1				
3. Non-officials out-side the government	124	540	358	66.30
4. Nominees of financial institution and banks	17	65	43	66.15

Appendix C

MAXIMUM AND EXISTING STRENGTH OF DIRECTORS – MINSTRY-WISE

Schedule	**Chief Executive**		**Whole time Directors**	
	2004	**2005**	**2004**	**2005**
Schedule 'A'	51	52	-	-
Schedule 'B'	87	87	185	194
Schedule 'C'	54	55	211	207
Schedule 'D'	09	07	67	68
Total	**201**	**201**	**463**	**469**

(Source: PE Survey 2004-05 Vol No. 1 pp.28-29)

BOARD OF DIRECTORS – INTERNATIONAL SCENARIO

*R.K.Mishra**

International Dimensions of Public Enterprise Boards

The last two decades have brought about a tumult's change in the international thinking on Public Enterprise (PE) Boards. Several official documents including the Green Committee report, Cadbury Committee report and more recently the OECD report have brought out into focus many unknown but very important dimensions of the problem. The purpose of the paper is to highlight the international dimensions of the PE Boards and examine the practices existing with regard to PE Boards in a few countries.

Corporate Governance in a Geographical Perspective

Despite the major difference between corporate governance systems around the world, many studies assume a somewhat comparable two-way division of the world:

- **The Anglo-Saxon model:** This model emphasis on free market operation, where the enterprise is primarily an instrument for achieving the maximization of shareholders' value.
- **The Rhineland model.** This model is concerned much more with a socially corrected market economy. In this model, the role of the enterprises is much broader than value maximization for the shareholder, both in its objectives, performance criteria and its governance structure and process, a great deal of attention will be paid to the other stakeholders.
- **The shareholders 'versus stakeholders' model:** The Anglo Saxon model, which they refer to as the *'stockholders' model'* is characterized by the fact that relationships between companies and their shareholders as well as with their employees are more temporary in nature (greater mobility on the capital and labour markets). They also point to a certain contradiction regarding the impact of the capital factor: although shareholding via the stock exchange is very widespread and the individual shareholders do not have much to say in daily practice, the influence of the stock exchange is significant.
- **The outsider versus the insider model**

  The *Anglo-Saxon or the outsider model* is based on widespread shareholding and an liquid stock exchange. There is also a major contribution by institutional investors and an active takeover market. The optimum according to this model is obtained by assuming a free market. It is therefore referred to as the market-oriented model.

Further differentiation of the Corporate Governance models

An initial adaptation can consist of envisaging a third group of countries, the so-called *'Latin countries'* which operate primarily using the 'reference shareholder' model within a socially corrected market model. Just like the Rhineland model, this model, according to De Jong (1996), is geared towards continuity and stability.

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Further detailing leads to the distinction of the *'Japanese' model* where the emphases are placed on 'group relationships' between enterprises via the model of the Keiretsu. This approach, and others, was developed by Weimer & Pape (1996).

Within Europe, Verbeke (1997) distinguishes 4 different systems:

- The Dutch system, typified by the 'structured' approach;
- The French model which is more politically oriented;
- The German system, which has a more banking and family character;
- The British model which can be characterized as market-oriented.

Further research demonstrates that considerable differences also exist within the Anglo-Saxon model. Monks & Minow (1996) point out to the differences between the US, the UK and Australia. Even within countries, considerable differences exist between enterprises, not only depending on life cycle, order of magnitude and sector, but even between comparable enterprises within the same sector.[1]

Corporate Governance Standards and Codes

The worldwide analysis of the many codes and recommendations has demonstrated that the development of a code which is adapted to one's own corporate environment is a long-term undertaking. Even the most well-known recommendations do seem to require a great, many qualifications before they can be applied on a sufficiently broad basis. Indeed, corporate governance must be just as diversely and dynamically interpreted as the business community for which it is intended.

One striking aspect of the international comparison is that standardizing what must be regarded as sound governance is a laborious and long-term process. Good examples of this can be found in Australia and the UK. In Australia, work started with a proposal from the stock exchange and the major investors. This work was followed by a broad-based corporate governance working group. This group has since developed three versions of its codes, taking into account practical experience, comments as well as the various foreign codes. The Cadbury code in the UK is based on a long consultation process, this code was in turn followed by many detailed examinations of its practical interpretation. The Greenbury code broadened standardization regarding systems of remuneration. Broad consultation produced the Hampel report, which in turn, was updated later on.

Although various levels exist ranging from the purely liberal attitude to legislation, most nonetheless seem to opt for a system of so-called soft law. A proposal is usually made that the annual report explicitly mentions the extent to which the guidelines were followed or, if the standards were not followed, justification is to be added as to why deviation from the standards occurred.

The disciplinary effect of institutional investors is expected to be significant, both on their domestic markets and on the many developed (foreign) capital markets. The major Bajor British companies seem to be demanding that institutional investors be allocated an important role in the corporate governance debate; smaller companies take a much more critical attitude.

Despite the many levels of enforceability regarding the codes, self-regulation is under discussion all over the world. Most people are fairly averse to generally applicable standards (the 'one size fits all' problem) and legal intervention. Self-regulation, linked to openness and accountability, seems to generate by far the most support. Increasing consideration is observed for the proliferation of standards. Many codes have emerged all over the world in recent years. Demands are increasingly being made for a critical testing of their usefulness and in particular, concerning their approach, corporate governance is not an end in itself but a means of achieving a stable long-term growth in prosperity. For this reason, the search for the correct balance between corporate freedom and standardization is increasingly being advocated. The encouragement of *Corporate Governance conduct and culture* should be given just as attention as the detailed of *Corporate Governance rules.*

Management versus Board of Directors

The division of tasks between management and Board of Directors takes various forms. Nonetheless it is possible to identify the following typology:

- The 1-tier or unitary Board of Directors which includes both inside or active directors, who also fulfill management functions within the company, and external non-active directors;
- The 2-tier or dual governance system, which has two individual boards, one responsible for day-to-day policy and composed exclusively of executive and a second type of Supervisory Board which is made up exclusively of non-active directors.
- Occasionally, an optimal system exists (basic system is either 1-tier or 2-tier with option of other version).

[1] What is e.g. revealing is the context are the different philosophies, even in terms of valuation principles and shareholders' focus, of the Dutch Aegean and ING groups.

The 1-tier Board of Directors is internationally the most prevalent. However, calls are expressed – certainly in larger enterprises – to create a double structure, with policy and governance responsibility respectively. Major differences of opinion do exist in this respect between the UK and France:

- Hampel does not agree with the proposals for creating a double structure and thus confirms existing practice in the U.K. The survey by Arthus Andersen demonstrated the smaller companies listed on the stock exchange are clearly in favour of the unitary Board of Directors. According to Russell Reynolds Associates, most large enterprises are also against a 2-tier system[2].
- Despite the fact that Vinot – and Pastre – also opt for a unitary Board of Directors, many in France[3]

Some European countries operate a 2-tier system.

- In Germany, if an enterprise has more than 500 employees, it must have a Vorstand (Management Board) and a Aafsichtsrat (Supervisory Board).
- In the Netherlands, large public companies must have a Supervisory Board as well as a Board of Executive Directors (which is responsible for policy). According to research by GT, the 2-tier system also enjoys support in practice.
- Denmark also has dual governance structure.

Despite the fact that vigorous proponents and opponents of both basic types exist, more far-reaching research reveals that in practice both basic typos are increasingly converging.

CEO versus Chairman of Board of Directors

The question of whether the CEO can also be the chairman of the Board of Directors is regarded very differentially internationally. Not only does a clear difference exist between a 1-tier and a 2-tier governance system but the fact that the Anglo-Saxon system certainly does not speak with one voice – as far as this problem is concerned – is even more striking.

The 1-tier system often raises the problem of the 'personal union' between the CEO and the chairman of the Board of Directors. Particularly in the U.S. and Canada, these two functions are very often exercised by one and the same person. In Denmark, the Netherlands and Germany, on the other hand, this 'personal union' is forbidden.

The proponents of a split point chiefly to the following advantages:

- The tasks and responsibilities at issue are clearly different and can therefore best be fulfilled by individual people;
- It gives a higher level of independence to the Board of Directors;
- In particular, it enables better inspection and accountability because the CEO is not simultaneously judge and judged;
- Power concentration is discouraged;
- More attention is paid to the interests of shareholders;
- It produces a more effective Board of Directors.

The US clearly operates a much more flexible arrangement than is the case in the UK. In the U.S., for instance, there is considerable opposition to splitting up the two functions, sometimes the combination is recommended or, in any extent, left up to the enterprises themselves to decide freely.

In the UK, by contrast, distinction between the two functions is openly advocated, despite the fact that both Cadbury and Hampel are in favour of a flexible interpretation.[4]

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[2] 53% thank a 1-tier system is the best because it works very effectively to reasonably effectively (38% and 45% respectively) 81% are entirely against a 2-tier system.

[3] See for example the proposal by Perelecade, Vadia and Wahl.

[4] Cadbury is in favour of a adivision but, failing this, sufficient independence must be guaranteed for the Board of Directors. Hampel states that it is pointless to envisage a split as

Opinions in Canada are somewhat more divided: the TSE leaves enterprises free to choose, while PIAC advocates a distinction between the two functions. The same is true in France, where a diversity of views also exists, comparable to the differences of opinion ranging there regarding the choice of the type of governance system.[5]

These differences in standards within Anglo-Saxon countries are actually a reflection of the wide differences in corporate governance practice. Regional differences also clearly exist as do differences depending on the size of the company.

In order to face up – to some extent - to the disadvantages of combining both functions, the appointment of a 'lead director' is proposed.[6] This person can be the spokesperson of the outside directors and can act as chairman of meetings without the inside directors. As previously mentioned, Lipton & Lorsch are worried that the CEOs in the U.S. will exercise negative emotional criticisms towards this idea. In the U.K., opinions already seem riper for a split in the functions, while Hampel goes one step further and advocates, even with a split in the function, the provision of a lead director for the independent directors.

In the unitary Board of Directors, the demand is increasingly being heard for the division of the tasks of chairman of the Board of Directors and of CEO (who manages day-to-day policy). Notwithstanding the many recommendations in favour of this division, there is certainly no consensus at world level. Even within the so-called 'Anglo-Saxon' system, opinions and practices in this respect are strongly divided. The solution being advocated, if there is no division of the two functions involves the 'outside' directors appointing a 'lead director'.

Independence of Directors

Most of the attention regarding corporate governance codes is devoted to independence as a structural requirement for the smooth operation of the Board of Directors, effective control of the management and the balanced attention to all the relevant interests. Including a number of independent directors on the board pursues this independence. However, independence can also be defined as a situational phenomenon. Here attention is paid primarily to possible conflicts of interest. Conflict of interest can exist both in terms of formal decision-making of opportunity, to incompatibilities, insider trading and favoritism.

It is widely recognised that independent directors have an important role to play in upgrading governance. Nevertheless, an increasing number of critical comments are being made about the way in which this must be carried out. Questions are being asked about the feasibility of the standards: not only is there likely to be a direct shortage of directors who must fulfill all the requirements regarding sound governance but their price can become prohibitive for many enterprises. For this reason, calls are increasingly being voiced for a pragmatic solution which pays heed to short-term feasibility, rather than assuming strict standards and rules which are declared fully applicable but unable to fulfill.

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a fixed rule, but does demand that whenever a personal union exists, the necessary accountability is given and that sufficient details as given of the various tasks and responsibilities. However, Bain & Band claim that this entire debate is pointless because it is upto companies themselves to work out how these roles must be allocated.

5 Vienot is for a combination of the two functions (only introduced after WWII to cope with the disadvantages of a split), while Peyrelevade points precisely to the many disadvantages of the combination of both functions. He claims that the 'monarchic model' (model monarchique) leads to a chairman and managing director who is a genuine 'irremovable monarch' (monarche irremovable) and who possesses all the power without control, which is typical of French management style. Neuville also advocates a separation of the two functions.

6 The survey by both Russell Reynolds and Bain & Band demonstrated this.

According to the American Business Roundtable and the Canadian Stock Exchange, the Board of Directors act independently as a whole. Simply having several independent directors is not enough, although this can be a means of ultimately achieving the aim of independent decision-making. CalPERS, Cadbury, Bain & Band, the VBO and the Belgian Stock Exchange Commission also point out the great importance of independent decision-making within the Board of Directors.

The discussion concerning independence may not let us forget that the essential requirements of a director go much further than independent decision-making, motivation, professionalism, knowledge (and training) and, last but not least devoting sufficient effort and time to the job.

COMPOSITION OF THE BOARD OF DIRECTORS

Size of the Board Members

A minimum number of directors are (usually) prescribed by law. In exceptional cases, the codes talk of a minimum number of directors. The recommendations and codes on the contrary usually prescribe a maximum number of board members. The effective operation of the board (such as thorough discussions, sufficient cohesion, involvement and a feeling of responsibility is enhanced by a limitation of the number of directors). These maxima are sometimes expressed in absolute terms, either as a strict standard (10-20) or as a benchmark (between 5 and 16). Increasingly, the recommendation of a 'relative' benchmark is gaining ground. Such a 'relative measure will differentiate depending on the complexity, size and nature of the enterprise. Moreover, a gradual reduction in the number of directors is more feasible than a sudden enforced cut.

Maximum number of directors

The standards regarding the maximum number of directors relate primarily to the concern to ensure effective operation of the Board of Directors.[7] A smaller Board of Directors would operate more effectively, be more cohesive, enable more participation and discussion and thus lead to greater involvement and an increased sense of responsibility.

Some proposals assume an absolute maximum, fluctuating between 10 and 20 directors.[8]

However, much criticism has been voiced against a rigid standard and restrictions on the number of directors. The optimum composition of the Board of Directors will always vary from company to company and from industry to industry,[9]. so that it is pointless to set a uniform standard. Regular reconsideration of the number of directors and the ideal composition of the board must take place on a company by company basis. For this reason, the codes often propose limiting the number of directors to what is workable, for instance, close consultation, open and active discussion, participation of all directors will impose a natural limitation on the number of directors.

On the contrary, some are in favour of a large number of directors, the advantage they point to include a greater variety of views, experiences and geographical origin. According to the Toronto Stock Exchange, these advantages can also be obtained by forming various advisory boards, instead of having a large Board of Directors.

Education and Training

Since it is possible that a potentially prospective director may not score adequate on all the necessary points, initial training is increasingly being advocated. Given the growing requirements regarding professionalism and the increasing complexity of the tasks, the need for regular refresher courses and training is also often highlited (e.g., regarding changes in the law, new corporate governance standards, new commercial risks, expansion and diversification in new domains, both sectoral and international).

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7 In this respect, see for example the proposal by the Business Roundtable and the Toronto Stock Exchange.

8 See, for example, GM (15), Lipton & Lorch (10), PIAC (12-15), Santens (12) and the legal proposals in Germany (12) only the Tornonto Stock Exchange fixes the maximum at 20.

9 Business Roundtable.

Some codes go very far in this respect and argue in favour of compulsory training, even for a form of certification. Australia requires prior training and Hong Kong has also made proposals along such lines. Following the proposals by Cadbury, Bain & Band and Hampel, the Institute of Directors (IoD) in the U.K. goes by far the further and actually predicts a compulsory examination, certification (Chartered Directors) and strict entry requirements.

Age Limit

Little is said about an absolute age limit (eg. At GM this is 70). In Belgium, the CBF argues in favour of providing information about the possible age limit for directors' offices.

Limitation of the number of offices per director

Virtually all the codes consider it desirable to limit the number of offices per director. Some advocate a firm of self-regulation. Others formulate maximum standards as a benchmark of good governance. The benchmark or the maximum number of directors' offices is, however, not uniformly defined:

- The benchmark can be interpreted differently depending on whether someone is also active as a manager or inside director, thus, is the U.K, Bain & Band argue in favour of a maximum of 4 offices for an inside director and 5 for an outside director, in France, Vicnot talks of a maximum of 6, which can be reduced to 5 offices for someone who is also active as managing director or as chairman of a Board of Directors.
- Some advocate even stricter standards: e.g., Lipton & Lorch in the U.S. propose a maximum of 3 offices.
- Others advocate limitations which are less far-reaching: e.g. Marini fixes the maximum for outside directors at 8, which can be increased by a possible 5 offices in subsidiaries of these companies, a maximum of 5 offices would apply to an inside director, but then there would be no limit to the number of offices which can be he held in subsidiaries.

The type of limitation on the number of offices per director is chiefly inspired by the concern that directors must be sufficiently available for the companies in which they fulfill a director'' office. After all, all the conviction is generally present that the required effort, time and attention are increasing in each director'' office, while problems are already arising in many countries because directors cannot devote sufficient time to their offices.

Remuneration of directors

In recent years, great deal has been said abo9ut the level of the remuneration which directors receive for exercising their director's office and how it is determined.

Monks & Minnow state that the US average is $36,000, made up of a basic remuneration of $20-340,000 and bonus for directors who take part in all the board meetings and for taking part in the various committee meetings. The highest remuneration is apparently paid to ITT directors (over $81,000) and the lowest (?), at $15,000, to Loew directors. These remuneration s are often supplemented by pension plans, shares/share options or other benefits.[10]

Factors determining directors' remunerations

The question of whether the remuneration of a director should depend on the corporate results is a fairly controversial one.

In the US, Canada and Australslia[11] views are strongly in favour a clear link between the director'' remuneration and the performance of the enterprise (e.g., by paining some of the remuneration in shares, restricted stock or share options). In other countries, this position is less well-supported. Cadbury believes that the independence of directors is at odds with the allocation of option plans. The Peters report also

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[10] According to Monks & Minow, 79% of the companies examined operate pension plans for directors and shares/share options are allocated to directors in 24% of cases. In addition, extra facilities are also often available (which can be very far-reaching).

[11] In this respect, see the proposals by Lipton & Lorsch, Monks & Minow and the Business Roundable in the US and by the Toronto Stock Exchange and AIMA (Australia)

comes down against remunerations other than the ‘basic fee’. However, this does not apply to the remuneration of executive directors, which is made partially via shares (options) in both the Netherlands and the U.K. A survey of the large companies quoted on the stock exchange in the U.K. revealed, incidentally, that this difference corresponds to desires in practice; 98% of enterprises are in favour of a link between the remuneration of executives and corporate results, while the same link is regarded by 94% as undesirable when it comes to non-executives.

Greater differentiation between the directors’ remunerations as a function of real effort is also advocated[12] (e.g. additional remuneration for attending committee meetings or for directors who attend all meetings). The increasing time pressure being placed on directors will also probably lead to a significant rise in their remuneration.

In global markets, Hampel believes it is useful regularly to test directors’ remuneration’s against those of other companies, both at national and international levels. At GM this apparently takes place annually. According to the Arthus Anderson survey, however, 62% of smaller listed companies are against this comparison technique.

It is usually the task of the Board of Directors, in particular of the remuneration committee, to establish the level of the directors’ remunerations, both for executives and non-executives. Nevertheless, it is often urged that shareholders be more involved in approving the remuneration rules (see Hampel, for example or that greater openness be created in this respect.

Liability of directors

Little attention is devoted to this subject in the various codes and recommendations (indirectly, the VBO does devote attention to it). This is probably logical given the most of these aspects are governed by law. The TSE does however advocate limiting directors’ liability and Hampel approves of the British practice, where the liability of directors is assessed by taking their position into account (full-time executive versus non-executive.).

Committees within the Board of Directors

The formation of committees within the Board of Directors receives excessive attention in virtually all the codes. Although decision-making and legal responsibility remain with the Board of Directors.[13] , many arguments can be put forward for the setting up of a number of committees within this board. The main aim of the committee is to improve the effectiveness of the Board of Directors viz:

- More efficient use of the directors’ time;
- Better insights and expertise through further-reaching specialization by the directors; however, that assumes that the directors possess the necessary initial knowledge and insights (education/training) to be able to fulfill their specific tasks properly, where necessary, they can freely seek the assistance of external and internal experts.
- More-in-depth directors in technical matters.
- The necessary direction in sensitive matters (personal issues, remuneration);
- Sometimes, reference is also made to the importance of independent decision-making, involving predominantly or exclusively outside/independent directors in some of these committees.

The (excessively) frequent use of this committee formula can involve risks, however, or lead to undesirable side-effects:

- This practice may not lead to an erosion of the Board of Directors.
- The committees can only make proposals but not decisions, the final decisions are made by the board as a whole after all, all directors are jointly responsible.
- It can lead to a limitation of the involvement of the ‘other’ directors;
- All other disadvantage can be that the comradely atmosphere can be damaged.

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12 See the proposals by the Belgian Stock Exchange, the Toronto Stock Exchange, the Business Roundtable, Monks & Minnow and Cadbury. A considerable proportion of directors remunerations at GM are paid in the form of shares/share options.

13 Hampel refers explicitly to the fact that the legal responsibility rests formally with all directors whatever the line-up and mission of the various committees.

Reference is also made to the danger that the discussions within the Board of Directors between lie varied and more superfluous.
In order to avoid these problems, the following is sometimes suggested:

- Working in the committees with a type of revolving system to ensure that all 'independent' directors sit on 1 committee at least once (Lipton & Lorch);
- Seeing the committees purely as 'preparatory' work.
- There must be clear guidelines on the operation of the committees;
- The operation of the committee must be well reported to the Board of Directors.

Names very widely and the same term does not always refer to the same content, while different terms are sometimes used for the same type of committee. The many proposals and practical interpretations in terms of committee operation within the Board of Directors can is summarized as follows (1) Audit Committee (2) Nomination Committee (3) Remuneration Committee (4) Corporation Governance Committee (5) Executive Committee (6) Strategic Committee (7) Financial committee etc.

Who sits on these committees?

The directors themselves or the members of the nomination or Corporate Governance Committee determine who will sit on the various committees in the US, a rotation of the members and the chair of these committee is strongly urged.

The independence of the committee's operation is high on the list of priorities. According to the Business Roundtable (in the U.S.) even sincere independence requirements must apply to the composition of the committees than those relating to the overall Board of Directors. Nonetheless, considerable differences exist at international level and the requirements regarding independence can even vary per committee.

Independence from the management is considered most important as far as the composition of the audit committee is concerned. Proposals in this respect adequate at least a majority of outside directors, while the extreme is only independent directors. In addition, independence is also important for the operation of the nomination and remuneration committee. By contrast, it is logical that (a great many) inside directors also sit on the executive committee or the financial committee.

In the U.S. it is usually required that all committees can be composed solely of independent directors. In the U.K. proposals certainly do not go this far and predominantly outside director are advocated. Nevertheless, U.K. companies seem to have problems applying these proposals. Bain & Band urge ensuring primarily that the chairman of the various committees is are outside director, while the survey by Arthur Anderson demonstrates that most of the small companies quoted on the stock exchange do not agree with the proposals only (?) to allow non-executives to sit on the remuneration and nomination committees. What is striking is that the inside directors are mainly those who have problems with those proposals, they are also critical of the withdrawal of the audit control from the Board of Directors as a whole in favour of the audit committee.

Cadbury, the CBF and the Corporate Governance Working Group in Australia urge publication of the composition of the committee.

Frequency of meetings

The various codes, standards, proposals and studies does little attention to the frequency of committee meetings. If anything is envisaged in this respect, it is that the members of the committees themselves determine how often and for how long they wish to meet. Cadbury states that the audit committee normally meets a minimum of twice per year. The audit committee usually meets the most regularly and the nomination committee less so. The Vienna report advocates reporting the number of committee meetings to the shareholders.

ROLE OF PUBLIC ENTERPRISE BOARDS - INTERNATIONAL SCENARIO [14]

It is interesting to know the international scenario in respect of public enterprise Boards on Corporate Governance. A brief overview of Boards in other countries is given in the following pages:

The Working Group on Public Enterprise Management Education and Training of the International Association of Schools and Institutes of Administration (IASIA) embarked on a study of the "Role of Public Enterprise Boards". The Group highlighted the role, functions, composition and working relationships of Boards of PEs in other countries after carrying out a study of Boards of PEs in various countries.

The Board of British Industrial Enterprises in the U.K. of any size is often a largely self-perpetuating group consisting of senior executives from within the company and, in a majority of cases, a number of outsider non-executive directors.[15] In Italy and Belgium, the Board structure is similar to British Boards. In countries like France and Sweden, only the CEO sits on the company's main Board and the rest of the Directors are non-executives. But the Boards of the companies in France and the Netherlands have the option of adopting a two-tier system with a `Supervisory Board' consisting of Non-executive Directors and a Management Board of Executives.[16] The multinationals gave representation both to owners and executives. In India, the position varied depending upon the ownership group. For example, the Boards of Birla group of industries have more or less exclusively owner representatives, whereas the units of Tata group consist of members of both owners and managers.[17] In the public sector, the concerned governments have their representatives on the Boards.

Another major issue relating to Boards concerns their nature, i.e. whether they should be advisory or managerial. The general feeling is that the job of a board is wholly advisory.[18] This implies that the Board's position is reduced to that of a consultancy body. It is true that specialist Part-time Directors can be of much use in an advisory role, but the board, as the top management organ in the organisation hierarchy, has greater responsibility. The elementary principle of organisation is that people working at every level in the organisation must be accountable to their immediate superiors. If it is only an advisory body, it could not take up such a responsibility. Even otherwise, as a representative body of shareholders, it must be accountable to the shareholders. In other words, the board should bear full responsibility for the success or failure of an enterprise.[19] In fact, the functions and responsibilities of the board are multifarious and complex. The Board of Directors is a feature of modern corporate management. In a sense, it has a dual personality, one legal and the other managerial. A board constitutes the statutorily required agency through which a company acts. In order that it fulfils its task of management, it is important that the board has a managerial personality.

Boards are a customary feature of corporately organized public enterprises, and their existence has been acknowledged in a great many accounts of the structure and working of public enterprises. Such recognition, however, usually falls far short of systematic analysis of the role of the board, either in the working of the public enterprise itself or in the pattern of relationship established between the board and other elements of

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14 Corkery, *et. al.,* (eds), *Public Enterprise Boards: What They are and What They Do,* International Association of Schools and Institutes of Administration, Brussels.

15 British Institute of Management, "The Board of Directors: A Survey of its Structure, Composition and Role", *Management Survey Report*, No. 10, London, 1972, p.1.

16 *Ibid, p.15.*

17 Annual Report of the Respective Companies.

18 Mace, Myles, (1972), "The President and the Board of Directors", reprinted from *Harvard Business Review*, Boston, March-April, No. 72209.

19 *Ibid.*

its organizational environment, particularly the relevant organs of the Central Government.

Emerging Role and Functions of Boards

The study highlights the fact that the board is identified as policy-maker for the enterprise within the broad framework of government policies and priorities, as approver of its budgets and monitor of its performance, as protector of its operational management (the buffer role) against the harmful effects of attempted encroachment of sectional interests, and as publishers of its needs and achievements to the broader community of stakeholders. All this adds up to a most important leadership role. Hence, the board should be able to discharge its role effectively to ensure better performance from the PE concerned.

A corollary of all this is that, where government wishes to give directions to the board that will divert it from the pursuit of its major commercial objectives, these directions should be public for all to see, and should be accompanied by the assurance that the government will fund the costs of any loss-making services that may result. No one seriously argues that government cannot legitimately give such directions; the point is that government then has a responsibility to ensure that the public enterprise does not suffer in consequence. Spelling out such relationships has become an important part of the exercise in drawing up performance contracts and memoranda of understandings (MOUs) between government and enterprises that are now a major feature of reform of public enterprise systems in many countries.

All the country studies provide information about the composition of Boards in their respective countries. Combinations of full-time and part-time executives are very common. The fully Executive Board (where *all* Members are full-time executives of the corporate enterprise) is not common. More often, some combination of such executives and part-timers appointed from outside the enterprise is to be found. Where this happens, the CEO (or Managing Director) will certainly be one of the Executives on the board. While practice is variable on all these matters across the countries surveyed, a few fairly general trends can be identified. In so far as Part-time Members are concerned, virtually all jurisdictions profess to want a much better balance between men and women, but women Board Members are few and far between. There is also much effort, particularly in the developing countries, to increase the proportion of Board Members experienced in private business. And there is, again particularly (but not only) in the developing countries, a widespread practice of appointing civil servants to boards. While, as several of the country studies explain, this practice confers some advantages, the general view is that the disadvantages outweigh the advantages. Civil servants threaten enterprise autonomy when they report back to their ministers and departments, they bring a bureaucratic rather than entrepreneurial bearing on the board's work, they often send juniors to represent them, and so on. Sierra Leone has acted recently to debar those holding

Ministerial office from the chairperson positions

There have been several movements seeking worker representation on boards, and considerable experimentation to that end. In general, however, the practice has proved to be disruptive of the sound working of public enterprise and is now frowned upon. In contexts as different as those of Ghana and Ireland, the suggestion emerges that it might be preferable to consider an alternative means of giving workers a voice in management, that of a duality of Board-levels as favored in Germany and other Central European countries.[20]

In Turkey, the CEO is invariably Chairperson of the part-time Board. In India, this is frequently so, and the other country studies all reveal some cases where this practice is common. However, the general view across a number of countries studied is that this is an undesirable practice, in part because it confuses the roles of Boards and Executive Management, and in part because - as data in virtually all studies about how Boards are serviced (agendas, supply of documents, minute-taking, etc.) indicates - the

[20] Ahonen, Pertti, (1987), "To Buy a Mine in Chile or Not to Buy: Case of the Outokumpu Company of Finland", in O Nuallain and Wettenhall, 1987. To quote Prof. Ahonen: "There are at least two and frequently three or more Board-like organs positioned on top of each other."

CEO is already in a very powerful position vis-à-vis the Board. Moreover, private enterprise practice suggests forcefully that the Board should appoint the CEO and hold him responsible to it; if the CEO chairs the Board, this is manifestly impossible.

There is considerable variation in the size of the Boards surveyed, within the range of 4 to 15 Members. This depends to a degree on the complexity of the task to be performed, and the range of specialized expertise regarded as usefully contributing to that task. The view that it is necessary to provide for representation of interests often leads towards the higher end of this scale, although it has been argued long ago that "the conception of a Board as a meeting place for the representation of interests is wholly mistaken". In the recent reform period, Australia has deliberately reconstituted its major primary produce marketing enterprises to remove such direct representation of interests, though it still provides for some interest group influence in the selection of Board Members.

Several CEs and members of the Governing Boards of PEs have expressed the view that the number of members on the Governing Boards should neither be too large nor too small. Hence, the study suggests that while constituting the Boards, PESB should take into account the background of the enterprise – basic corporate strategy, size of the organisation and the nature of activities and functions that are required to be undertaken by the enterprise concerned. Under no circumstances, PESB and the governmental agencies should show unnecessary concern for the representation of various interests on the Governing Boards. Efforts should be made to secure the services of experienced professional personnel to serve on the Governing Boards of PEs without attaching much importance to the numbers.

Appointment, Preparation and Termination of Board Members

The country studies provide much information about the way Board Members and Board Chairpersons are selected. In all countries considered, it is the executive government of ministers, cabinets and sometimes presidents that dominates the appointive process, and there is little sense that this should not be so. What does emerge, sometimes quite forcefully, is the sense that it is too easy to abuse this appointive power, that appointments for partisan political reasons (the "jobs for the boys") do not serve the interests either of individual PEs or of the healthy operation of the public sector as a whole, and that an urgent imperative is, therefore, to devise ways of ensuring that governments appoint persons to Boards whose knowledge, experience and capacity are such that they contribute positively to good performance.

Working Relationships

The country studies provide much evidence about working relationships between Boards and CEOs as major elements of the enterprise organisation on the one hand, and about relationships between those internal elements (individually or collectively) and elements of the enterprise's external supervisory and stakeholder environments on the other. Supervising ministers and their departments or ministries are central to this environment, but by no means do they represent the only element that enterprise Boards and Executives need to relate to. Ministers and Ministries of Finance, powerful Legislative Committees in some countries, focal points like Planning Commissions and Bureaus of Public Enterprises, and regulators, Prices and Incomes Boards, the ubiquitous Auditor General and others, often figure in this picture. The institutional provisions to support this complex of relationships are generally inadequate. There is insufficient provision for contact and consultation between the enterprises, either separately or as a sector, to consider general public policy developments at the centre and how they are likely to impact on the public enterprise environment. It is not too much to suggest that ensuring the successful management of these relationships is one of the major challenges facing the PE Board.

Corporate Governance in Public Enterprises: A New Framework

*R.K. Mishra**

The performance of public enterprises (PEs) is hanging fire. There are questions from different quarters about their inefficient functioning. Even strong votaries of public sector find their faith rudely shaken when they are asked to rise to their defence. These enterprises are also losing their political constituencies, leave alone winning friends in trade and industry. The researchers are unable to offer a strong defence as the evidence concerning their effective functioning is only mixed.

Strangely, even in the present times of liberalisation and marketisation in India, the investment in public enterprises is on the ascent[1]. In the years to come, they would be forced to corporatise their style of management. Moreover, if present trends are any indication, enterprise consideration will transcend public considerations. In order words, public enterprise would have to provide an account of their performance in lieu of the resources spared by society.

They would have to give a clear indication of their contribution towards the reduction of fiscal deficit, globalising the Indian economy, and self-sustaining their operations. It is here that the role of the top management in PEs comes in question. The top management, representing the board, the chief executive officer, (CEO), executive director, and other top managers will have to own up the responsibility for the success or failure of an enterprise, if not fully at least to the extent of their contribution in making the enterprise work towards this direction effectively.

Corporate governance in PEs is a new phenomenon. In its ambit, the responsibilities of an enterprise to its customer, employees, society / government, suppliers and creditors are defined and a stocktaking is done at the end of a specified period to ensure whether such responsibilities have been fulfilled or not. The board of directors of the enterprise has to assume the responsibility of installing the systems of corporate governance in the enterprise and overseeing its effective implementation.

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Benefits of Corporate Governance

The initiation of the process of corporate governance in PEs is likely to result into a series of important benefits.

Firstly, the flip-flop about owning of the responsibility for low performance would perhaps come to an end. The ouns will be on enterprise board.

Secondly, Goal and role clarity would improve. Enterprise would be mission – vision driven.

Thirdly, opportunity for top management to create a cultural transformation – from government entities to corporate entities, and from state – financed to self – sustaining ones.

Corporate Governance and Chief Executive Officer

The premise of effective corporate governance commences with questioning the effectiveness of the institution of the institution of board of directors, etc. In a recent study of corporate governance in the US, there has been an evaluation of CEO; whole board; individual directors; CEO and whole board; individual directors; CEO and whole board; CEO and individual directors; and CEO, whole board and individual director.

The areas that were investigated in the study ranged from the ability of developing the annual strategic plan, shaping the organisation's, short-term and long-term objectives, performance of the stock price, lobbying efforts, involvement in trade associations, efforts at internal communication, leadership skills, success in managing labor relations, and succession, among others.

In the US, a CEO is usually evaluated on five to ten objectives, at three levels of performance (Poor, Acceptable and Outstanding). These levels become the benchmarks for different pay packages. A CEO does his/ her own self-assessment and presents it to the board. The self-assessment with regard to different parameters is done in quantitative terms as he is expected to translate the various objectives into a set of personal and performance targets. A committee of the board assesses the performance of the CEO, mostly on quarterly basis, and reports is placed before the full board. A composite evaluation takes place at the end of the of the fiscal year.

Shifiting this discussion to the Indian scenario, one finds that the boards does not normally assess the performance of the CEO. The absence of this practice does not stimulate the CEO to have his /her own mission and vision and by extension, reaching milestones during his/ her tenure with the enterprise. This, in turn, results in lack of involvement and commitment on the part of the CEO sending unhealthy signals down the line in the organizational hierarchy.

Though there have been questions against the practice of self-assessment by CEOs public enterprise have not taken advantage of even this flexibility. This has created problems not only for the CEO but also for the rest of the staff of PE. This could be one of the reasons for the low salaries of the CEOs, managerial and non-managerial staff in their organisations. It also explains, to an extent, the lack of will of the board of directors to hold the CEO responsible for the performance of public enterprise, and accounts for a reason why public enterprises are seen as non-performing entities.

Corporate Governance and Board of Directors

The boards of directors of an enterprise have to fulfil a number of responsibilities.

- Creating conditions for developing a sound business strategy in consonance with national / plan objectives
- Ensuring that the enterprise has a CEO of the highest caliber, and the certain senior managers are being froomed to assume the CEOs positions in future.
- Creating systems of information, audit, and control to oversee whether the enterprise is meeting objectives
- Ensuring that the enterprise complies with legal and ethical standards
- Ensuring that the enterprise is able to manage crisis and that its actions come in hardly in the prevention of crisis.

Motorola, a US based multinational evaluates its board of directors by asking questions about

- The level of involvement of the board in CEO succession,
- Sufficiency of information to board for CEO evaluation,
- Appropriate processes to assess the CEO's
- CEOs commitment in time spent with regard to the long-range future of the company,
- Changes proposed by CEO with regard to company direction,
- The CEO's capability to formulate a vision and a mission,
- The CEOs efforts to put in place appropriate structures to evaluate the company's strategy and objectives and resolve to effectively inquire into major performance deficiencies.
- The CEOs capability to deal with unforeseen corporate crisis.

Against this backdrop, it is seen that most of PE boards do not contribute to business strategy development. A number of enterprises have been taken by surprise by the process adopted by the government of liberating the Indian economy from the shackles of controls, quotas, embargoes and protection. May public enterprise have turned sick, as their product have no appeal left for consumer.

PE boards have been an utter failure with regard to succession-planning. No effort is made to groom people internally to succeed the CEO. Sometimes, PE boards just do not have an idea as to who could succeed the CEO in the event of his retirement or resignation[2], as they have had no time to observe the style and functioning of his immediately junior colleagues. Most boards do not even recommend the names of insiders to their administrative ministry or to the Public Enterprise Selection Board nor lobby the case of the insiders.

On the information side, PE boards fall short of expectations severely. Whereas in the case of boards of management of private enterprise, a number of sub-committees of the boards are appointed to look into major issues of audit, recruitment, purchases, exports, performance evaluation, joint ventures, etc. PE boards have failed to notice this trend[3].

Public enterprise boards have spared little time for developing the enterprise business strategy. This has happed primarily because no clear vision exists. Therefore, boards have failed to comprehend changes in direction of the organization nor critically observed the contribution of the CEO in changing such direction[4]. The contribution of boards in resolving corporate crisis is equally unsatisfactory[5] as members are indifferent and do not feel the urgency to come forward and contribute their mute because they are neither brought to book or punished.

Despite non-performance on financial and physical fronts by public enterprises, their boards have done little to remove the handicaps obstructing physical and financial performance[6]. on the whole, one has yet to come across a single instance in the history of public enterprise boards where such entities have conceptualized schemes of their assessment and brought these schemes to the notice of their administrative ministries, let alone the common citizen.

Corporate governance in public enterprise in the context of customers means ensuring satisfaction on quality, price, after-sales service, etc. Studies of such parameters point out that a lot requires to be done[7]. One of the characteristics of a good brand is its export potential. Little thought to quality production, state-of – the art R&D, aggressive marketing, higher prices, among others, contribute to the sorry state of affairs.

Nominee Directors

Nominee directors include government nominees and representatives of financial institutions on public enterprise boards. In essence, these directors are a conduct between the enterprise and the government. They must, therefore, bring together with them the Government's thinking regarding the various issues for discussion at board meetings and in the case of financial institutions, the effective utilization of invested funds. It has been found that government nominees dominate board meetings and their contribution is not in proportion to their representation. Nominees of the financial institutions also act more often than not as a rubber-stamp and are indifferent to the proceedings taking place in the meetings.

The nominee directors should be clear about their role dual role ie.. safeguarding their interests of the government / institution and interests of the enterprises. In playing the dual role, they must :

- Approve the decisions of various matters discussed at board meetings keeping in view the interests of government / institutions on the one hands, and the enterprise policies and interests on the other in terms of growth, return and competitiveness.
- Ensure that no dividends are paid to shareholders unless interest on loan capital has been paid to the government or financial institutions. In addition to this, they must ensure that statutory liabilities such as remission of provident fund contributions, payments to state electricity boards, contribution to gratuity fund, etc. have been taken care of prior to earnmaking funds for dividends.
- Play a very active role in ensuring the leverage of the enterprise in favor of government institution and vice-versa.

Research has revealed that nominee directors :

- Abstain from attending board meetings or send some junior officials to substitute for them. Attendance of government nominees is not up to the required mark. To secure good corporate governance, such a practice should be discontinued.
- Have been accused of being loners on boards and fail to play as teams.
- Expertise in matters of finance and engineering is wide open to anybody's guess. That is as far as government is considered. Nominees of financial institutions are not very different. They take vary rigid postures on various issues, insisting only on matters dear to them.

Directors not conversant with the financial functioning of the business and different aspects of its operations must take time off and first get groomed in basics of financial management, company law, secretarial practice, costing, audit, engineering etc. They must set self- assessment goals for themselves while they sit on boards in terms of their contribution to reduction in per unit cost, increase in labor productivity, sales return on investment, earnings per share etc.

They would do well if they could set up similar benchmarks for enhancing the contribution of the enterprise to the people around it[8]. An assessment of the role of the nominee directors on PE boards would squarely point out the great scope for improving their contribution.

Creditors, suppliers and Corporate governance

Public enterprises boards have to play a critical role to fulfill conditions of sound corporate governance vis-à-vis creditors, as they are very important stakeholders. Creditors need financial information on the operations of the enterprise on a continuous basis (liquidity, solvency, debt-paying capacity, debt service coverage ratio, interest coverage ratio, value added to wages, growth of turnover, growth in market share, etc). By installing an effective system of financial disclosure, boards can ensure effective corporate governance[9].

There is no consistency in accounting policies followed in public enterprise. They go on changing their depreciation policies[10] and they sometimes do not differentiate between revenue and capital expenditure. They even club certain expenses to give erroneous picture about their efficiency and claim of fulfilling certain legal obligations[11]. Some of these enterprises have fallen so short of expectations with regard to finalization and preparation of accounts that the Securities and Exchange Boards of India had to exempt them form filing quaterly profit and loss accounts and balance sheets. The disinvested enterprise had to be exempted even from filing the financial statement for the listing on Indian bourses, and were later asked to provide only summary details to fulfill the conditions.

Likewise, suppliers, especially in the case of public enterprises manufacturing goods, where 60 % of the cost relates to materials, are drawn into the system of corporate governance. The continuity of quality material supply ensures smooth production, helps cost reduction, and maintain competitiveness, among others. Suppliers naturally are interested in the paying capacity of public enterprises.

It is here there that lies the problem. Past, or even the present record of meeting payments of bills presented is slow and cumbersome. In the emerging system of strategic partnerships and zero inventories, competitive advantage lies in how materials issue, and thereby suppliers are managed in the current inventory of corporate governance.

Government, employees and corporate governance

Government – central state or municipal is the owner of public enterprise. The concept of ownership as understood implies that the government must own, manage, and control these enterprises, and in turn, should fulfill its public accountability through its elected representatives to parliament, legislature, and local bodies. The concepts of ownership, management, control and public accountability have been stretched far beyond desirable limits.

In the name of ownership, the government has stuck its neck out even in case of appointment of officers at senior management levels in public enterprises. Other appointments are also controlled through a check on the articles of association. Wages and salaries of employees are controlled by the Department of Public Enterprises (DPE). Clearance from vigilance has also to be sought. Courts have added a new dimensions to this problem by interpreting Article 12 of the Constitution of India to the detriment of the functional autonomy of these enterprises.

In the guise of management and control, the Committee on Public Undertaking of Parliament continuously breathes down on the necks of public enterprises. The Comptroller and Auditor General of India acts as the custodian of public funds invested in these enterprises. Questions know as starred and unstarred are constantly asked by elected representatives on the policies and performance of public enterprises. More often than not replies made / tabled and discussions ranging from half-hour to two days and special, debates are unsatisfactory. Parliamentarians and in the same manner, legislators are very angry about the deployment of public funds.

The government machinery existing in the form of the DPE has contributed to a worsening of the situation. A recent study on its guidelines shows that out of the 892 it issued, 762 needed deletion, 25 required modification, and only 105 qualified for continuation. Failing to understand its own actions, the Government of India appointed a number of committees, notable of which was the Arjun Sengupta Committee[12] on public enterprise policy. The government later introduced the concept of Memorandum of Understanding[13] in 1988 and disinvestment in 1991[14].

As an owner, the government certainly has the right to get dividends and ensure sound functioning of public enterprises, but has no right to make them dysfunctional. In UK, the government opted for the right of self-denial and abolition of the select committee on nationalized industries. French public enterprises have been more fortunate. They are called government enterprises without the government continuously watching their functioning.

In our view, the government must resist the temptation to set – up institutions under the influence of zealots who still dwell in the dark ages of command and control. Existing institutions like the Public Enterprise Selection Board should be wound up. The application of Article 12 to public enterprise should be stopped forthwith and public enterprises should be allowed to drawn-up their own articles of association.

So far, public enterprises boards have yet to fulfill their responsibilities to employees. No steps have been initiated to ensure free flow of information, maximize labour productivity potential, nurture and strengthen participatory systems, set-up sound systems of accountability or establish a proper relationship between productivity and reward. More and more bright men and women are moving out of the public sector which, over a period of time make organizations less and less competitive resulting in loss of jobs, when forced to downsize or down shutters.

Towards a new framework of Corporate governance

Public enterprise boards are different. The administrative ministry, the cabinet , committee, etc. act as super boards. The concept of self-managed public enterprise boards has not found roots in India. Measures like nanavatnas and mini-ratnas[15] were initiated to set them free from the control of the administrative ministry and other government agencies. But before the ink could dry, the administrative ministries did everthing to rescind such announcements. In a more recent move, even the committees to appoint professional directors on navratna boards have been disbanded.

Members on public enterprises boards are nominated not on the basis of competences, but factors such as loyalty to the ruling party line and proximity to ministers and thus fail to effectively integrate the interests of their nominees and the enterprise. This pattern has already come under severe scrutiny. Changing times squarely dictate boards to conform to existing patterns of corporate governance. Public enterprise need to evolve a new framework to measure up to a difficult but interesting task. In such a framework, boards must:

- Set goals for the CEO and functional directors separately and collectively to measure their performance. Written statements are ideal. Self-assessment or evaluation by an independent organization can be adopted.
- Appointment committees / sub committees to ensure transparency with regard to financial transactions, payment of wages / salaries, etc/ and ensure full disclosure to creditors and suppliers.

Directors on public enterprise boards would do well to understand that the essence of corporate governance lies in acceptance of their responsibilities *publicly.* Instruments like MOU more clearly spell out expectations from public enterprises in quantitative terms. Performance will come under greater scrutiny in future. Failure on any front will squarely be a board responsibility attractive notice by the laws of the land.

Government on its part must learn to practice the right of self –denial by disbanding its restricting machinery overseeing public enterprises without diluting its role of *eternal vigil* on public investments. The wave of corporate governance sweeping the west has started knocking on India’s corporate doors. Doors cannot remain shut.

Notes:

1. During 1996-97, while the Government of India miserably failed on the disinvestment front, investment in central public enterprises increased by over Rs 9,200 crore. See p.105, Public Enterprise Survey 1996-97 Vol – 1 (Department of Public Enterprise, Ministry of Industry, Government of India)
2. For example, the Industrial Development Bank of India (IDBI) is one among seven leading financial institutions in the world. Even on the last day of his laying down office, Mr. S.S.Khan, the then CEO did not know who was to don his mantle. On an average about 20 large sized public enterprise topless at any point of time.

3. Some large sized public enterprise like Oil and Natural Gas Corporation Ltd, Indian Oil Corporation Ltd, National Thermal Power Corporation Ltd, Hindustan Petroleum Corporation LTd, Bharat Heavy Electricals Ltd, Gas Authority of India Ltd, etc., would certainly do better if their boards appoint such committees / sub committees.
4. Until the appointment of Mr. V.Krishnamurthy as Chairman of Steel Authority of India Ltd, this large public sector enterprise suffered from a lack of clarity. Executives or employees at lower levels did not share the companys vision. The case of BHEL is no exception. It was only during the 1980s that a proper plan was prepared by the company. Unfortunately the vision and mission contained in the paln was not shard with executive other than those in the corporate planning department.
5. For example, HMT Ltd is facing an identity crisis and the onset of economic reforms has only deeperied the crisis. The contribution of the members of its board in resolving the crisis has been minimal. Once a crown jewel of the nation, it is slowly tottering away.
6. For instance, the National Mineral Development Corporation Ltd did not do well financially in the 1970s and early 1980s. the unjust pricing formula contributed to losses incurred by the enterprises. It took more than a decade to seek redressal from the government. Most of the paper mills in the public sector suffer from over capacity and excess staff. The boards of such companies have yet to take steps to right size and develop linkages with national and international paper companies.
7. For example, ECIL today can hardly stand the competition from consumer electronics companies like BPL, Onida, Sony, etc., in the television market of which at one time it was a market leader.
8. Tatas had conducted social audit of the contribution of the Rata Iron and Steel Company to the villages around its plants.
9. Let alone various financial parameters, a large chunk of these enterprise do not finalise malaise more than central enterprises. A recent report of the CAG on the state level public enterprise of Andhra Prade4hs reveals that out of 41 enterprises, 36 did not finanlise their accounts for periods ranging between 1 and 13 years. According to the public enterprise survey, annual accounts for 74 central public enterprises were not finanlised.
10. For example, the depreciation provisions in the case of ONGC were changed to shaw higher profits to the tune of Rs 600 crore in a particular year.
11. For instance, the money spent on providing cars etc., to executives in the case of an enterprise was booked as *labour welfare* expenses.
12. Committee to review public enterprise policy headed by Mr. Arjun Sengupta, which submitted its reports in 1984. Also see p. 12 of the report of the committee for Review of guidelines for public sector enterprise.
13. See p. 20, Performance contracts (Commonwealth Secretariat, London 1995)
14. Rangarajan, C (1997), Disinvestment strategies and issues. Reserve Bank of India Bulletin February, p. 125
15. Number 106 enterprises.

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Corporate Governance and Public Enterprise Boards

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Abstract

The present paper highlights the functioning of public enterprise boards with regard to the effective discharge of corporate governance. The paper highlights that public enterprise boards have to improve their style and content of functioning. The systemic change need to be effected to discard their existing procedures. The paper brings out the point of view that the government will have to rapidly transfer the power of governance to these enterprises to benefit the society in general and ensure benefits accruing to it due to the ownership without the interference in their day to day management.

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Corporate Governance and Public Enterprise Boards

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The Indian corporate sector continues to be dominated by public enterprises which have been severely criticised for their sub optimal performance. Even the private enterprises in the corporate sector cannot be absolved of this shortcoming. Both the sectors have to brace up to meet the challenges of globalisation. The public sector culture in one or the other way influences the corporate culture in the private sector. In a large number of industrial activities it is the public sector which assumed the role of the trend setter. As it functioned in the monopoly environment for more than four decades, the issue of effective corporate governance did not sufficiently attract the requisite attention. The private sector had no reason to think otherwise. However, the process of integration of India with the rest of the world is forcing its corporate sector to rewrite the rules of the business. Public enterprises want to inject unto them the element of management to flush out the deep rooted culture of administration. They are faced with a new perspective embedded in the stake holder theory as presented by Mishra R.K. (1998)[1] in his work *Public Enterprises: A New Framework for Corporate Governance*, Reddy Y.R.K. (1998)[2] *Corporate Governance and Public Enterprise* and Disinvestment Commission in its First Report (1997)[3].

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The private sector enterprises are taking the cue from the Report of the Cadbury Committee[4] on financial aspects of corporate governance, CII Code[5] on desirable corporate governance, UTI Code[6] on governance and SEBI Birla Panel Report[7] on corporate governance. All these studies very forcefully point to the importance of the board of governors in the effective discharge of corporate governance. The present paper highlights the functioning of public enterprise boards in this regard.

Methodology

A questionnaire was formulated seeking information on the various aspects of public enterprise boards and circulated to 246 central public enterprises. 35 responses were received. It contained qualitative and quantitative questions. A 5-point option scale ranging from 1-5 was provided to rank the responses over the last 6 years.

Import of the Problem

Corporate governance is an instrumentality in the hands of society to ensure the healthy interface between business enterprises and society based on social contract theory which underlines the umblical relationship between society and corporate bodies. The governing boards are the most important link in the chain as their proactiveness is an important element to stir the other elements. These boards have to have a clear vision about their role, the role of the government nominees, appointment of subject committees for their improved functioning and evaluation of the contribution of the CEO and other board members.

Findings

That the government lacked the understanding of the role that boards could play in public enterprises is seen from the fact that 14 enterprises (40 percent of the sample enterprises) had vacancies on their boards to the tune of more than 50 percent. Table-1 shows that 17 enterprises (about 49 percent) had vacancies in the zone of 20-50 percent.

Table 1 Vacancy Position in the Board

% Vacancy	No. of Enterprises	Name of the Enterprise
0-25	4	BDL (20), BEL (0), CMC (0), SCIL (14),
20-50	17	CMPDL (47), ECIL (42), GRJE (27), HAL (33), HFCL (33), ITI (27), MDL (33), MFL (35), NALCO (42), NHPC (33), NPCL (36), NSC (31), SIIL (25), NPC (36), STC (43), WPCS (25)
Above 50	14	ANTRIX (38), BCPL (50), HLL (50), HPCL (58), IOC (67), MAPL (50), MECL (58), MTNL (58), NEPA (58), RIPL (50), ONGC (52), TCIL (65), VSNL (58)

Source: compiled from responses to questionnaire.

The stake holder theory propounded by Mishra (1998)[8], brings out the importance of a balance composition of public enterprise boards.

Table 2 Composition Internal Vs. Government Nominees

Composition (% of the present size of the Board)	No. of Enterprises (% 0f total)
Internal Members	
0-50%	24 (68%)
> 50	11 (32%)
Government Nominees	
0-50 %	25 (71.1)
> 50	10 (29%)

Source: compiled from responses to questionnaire.

Table –2 shows that 10 enterprises (29 percent) had government nominees exceeding 50 percent of the board strength whereas 25 enterprises (71 percent) had government nominees turning out to be 50 percent or less. 34 enterprises (97 percent) were not in favour of increasing the presence of government nominees. Against the optimal number of 12 members suggested for effective corporate governance, the average size over the 6 year period turned out to be 7 in the case of enterprises under study with the average composition as given in the Table 3 below:

Table 3 Average Composition

Average Composition of Board	Number of Members
Internal	3
Workers' Representatives	0
Government Nominees	3
Nominees from FIs	1
Ex-Officio Members	0
External Professionals	0
Others	0

Source: compiled from responses to questionnaire.

As per the Articles of Association of the responding boards they should hold at least once in three months a board meeting. The new land marks suggested by the various committees referred to earlier indicate once a month meeting as an ideal frequency. The analysis of the frequency of board meetings of the enterprises under study shows that board meetings averaged to 7 per year.

The indifference towards recognition of the boards as an instrumentality of corporate governance was displayed not only by the government but also by the corporate management at the enterprise level. This is evidenced from Table-4 which shows the availability of agenda for board meeting to the members of public enterprise boards. 4 enterprises (11 percent) sent the agenda papers less than a week before the board meeting whereas 21 enterprises (60 percent) sent the agenda papers just a week before. 24 CEOs (about 69 percent) felt that board members gave constructive suggestions and 11 CEOs (31percent) indicated that it was only sometimes that the board members made value addition. In 13 (37 percent) cases, the members of the boards were not consulted on the preparation of the agenda for the board meeting. In an equal number of cases they were only casually consulted in the formulation of agenda and in 9 cases (26 percent) they were not at all consulted. On an average the governing boards discussed 2:3 routine items to new items and 3:4 policy to operational issues.

Table 4 Availability of Agenda for Board Meeting

No. of days in Advance	No. of Enterprises in Percentage
Less than 7	14
7	63
10	1
15	22

Source: compiled from responses to questionnaire.

The queries relating to role of public enterprise board of directors revealed that among other things, they were involved in the formulation of overall policy guidelines, long range plans, appointment of key managers, setting corporate objectives, reviewing performance, framing corporate policy, SWOT, reporting to shareholders, stewardship, salary, perquisites, R & D efforts, new projects, professional guidance, growth oriented agenda, foreign collaborations, bridge in the knowledge gap in technical, human resources, operations, finance, management, visualise future scenario and evolve strategic plan. Table 5 shows the role of governing boards in the responding public enterprises. The HVOC equated the objectives mentioned in their Memorandum of Association and

Articles of Association with the role it's board plays. ANTRIX and SCIL were not forthcoming on this issue. NSC had carved out a role on practical and operational aspects for its board. MDL confined the role of the board to setting up targets of production, its review and assessment of capacity utilisation.

Table 5 Role of Board of Directors

Name of the Enterprise	**Role of the BoDs Formal & Informal**
1. ANTRIX	-
2. BCPL	Over all policy guidelines : to help the company to prepare long range plans, appointment of key managers.
3. BDL	Board will have to Be cohesive and play a progressive role in shaping the destiny of the company
4. BEL	Setting corporate machine, objectives, goals, reviewing the performance, framing corporate policies and conducting SWOT analysis.
5. BPCL	Setting the companies strategic aim, providing leadership, supervising management of the business, reporting to shareholders on Board's / stewardship.
6. CMC	Guide lines of DPE should only be guidelines and not rules. Board should have powers to look into salary perquisites, profitability, etc.
7. CMPDL	Advising and guiding the Board, cautioning the board about pitfalls.
8. ECL	To provide directions for growth of the company and monitor progress in constructive manner.
9. GRSE	Board must be the supreme policy making body to manage the company in the best interest of the enterprise. Govt. should not try to do backseat driving through nominated directors.
10.GSYL	Chairman should take the decision with informal / formal advice from the Board.
11.HAL	Policy formulation and updating review, monitor implementation of plans, ensure compliance of laws, guide in technology updation, give fillip to R&D effort, monitor progress of new projects / diversification programmes.
12.HFCL	Give their view points and benefit of their experience in taking major policy decision.
13.HLL	BoD should be able to give professional guidance to the corporate body.
14.HPCL	Directors should meet in Board meetings to approve various growth oriented agenda with pragmatic views in regard to size, nature and tough external competition.
15.HVOC	As under Memorandum of Association and Articles of Association.
16.ITI	Formulation of policy guidelines, superintendence, formation of JVCs, foreign collaboration.
17.MAPL	To manage business of the company by exercising all such powers within the frame work of the Companys Act.
18.MECL	To guide the company towards growth in today's competitive market, lay down policies and monitor its implementation.
19.MTNL	BoD should give a feedback on the performance of the company based on the knowledge and interaction with the members of the public.
20.MDL	Role of the Board should be confined to setting up targets of production in terms of quantity and value; review of actual production vis-à-vis targets; assessment of under utilisation of capacity by determining attainable production vis-à-vis firm orders / projected demand; prescription of standards of equipment utilisation, broad targets of inventory levels.
21.MFL	Board should monitor executive management; should present a balanced and understandable assessment of company's position; should establish an audit committee; should devote time and effort to attend meetings.
22.NALCO	To set goals, to set over all policies, to decide strategies for future.

23.NEPA	To guide senior level management on policy matters; interact with ministries in government and other agencies to further development of the organisation. General image building for the company in different flora.
24.NHPC	Board should guide the organisation in the short and long term plans. Extend advice and assistance in technical, financial, administrative and organisational matters to ensure best performance. Board should be a vocal mouth piece to project corporation's achievements and aspirations and protect the same from adverse actions and reactions from various quarters.
25.NPC	BoD should be mainly concerned with formulation of policy and to review the performance of the on-going projects, performance of the operating stations and exercise the powers which are vested in the BoD with regard to sanctions and approvals.
26.NSC	More concentration on practical operational aspects. Free and frank brain storming discussion. Each and every director should be heard.
27.NSICL	Board should be available to visualise the future scenario and direct accordingly the future activities. Monitor aspiration of the service user, general economy and employees to give proper policy direction. Adopt techniques of successful managerial practices of private sector boards.
28.ONGC	Develop a long lasting vision of the company. Provide strategic direction, promote business and ensure long term growth, add value in large investment decisions, encourage creativity, technology up-gradation and value based business.
29.RCFL	BoD is the pivotal authority created by the company. Role is mainly in laying down policies and ensure strategic and long term plans are carried out. Role is insignificant in the field of development and creation of core competence.
30.SCIL	See Annexure
31.SIIL	Assist company through their inputs in strategic planning, provide support in controlling external environment. Provide guidance and bridge in the knowledge gap in areas like technical / marketing. Finance / HR / Operations.
32.STC	Formulation of corporate plan / policies / strategies. Fixation of targets and laying down of control / monitoring mechanism.
33.TCIL	To evolve strategic plan, its implementation monitoring.
34.VSNL	A combination of formal and informal roles is desirable. The board members may if need be have to formal advance discussions to arrive at formal decisions.
35.WPCS	The directors in the respective professional field apart from dwelling on board proceedings shall also share the responsibility to develop strategies and plan for business development and to be proactive in resolving key issues in the implementation process. This interaction shall be through a sub-committee which shall function under the CMD and report to the Board from time to time.

Source: compiled from responses to questionnaire.

That the governing boards had less than an adequate idea of corporate governance is seen from the fact that 14 enterprises (40 percent) did not appoint sub committees. The various models suggested on the formation of sub committees provide a space for the inclusion of non-board members. They do not insist on every committee being headed by the CEOs. In the case of the central enterprises the members of the committees in most cases are the CEOs, directors from various functional areas, representatives of government and thin representation of management experts. In 21 out of 35 enterprises (60 percent), the committees focussed on R&D, projects, share issue and transfer, delegation of power, financial restructuring and pay revision. These committees once on an average met once a month.

The new economic policy has signalled the changes to be brought about in the working systems in public enterprises. Such working systems include recruitment, terms and conditions of service, interface relationship of the government with public enterprises, accountability, budgeting, auditing and market status.

The governing boards in public enterprises have to go a long way to create a favourable impact on the working systems. Table 6 shows that 23 out of 35 enterprises (66 percent) felt that no changes were effected in the recruitment, 20 enterprises out of 30 (67 percent) noted that the terms and conditions of service remained unchanged, 25 out of 35 enterprises (71 percent) indicated that interface relationships with the government did not undergo any change, 23 out of 35 enterprises (66 percent) noted that accountability norms did not change, 25 out of 35 enterprises (71 percent) revealed that budgeting systems did not register any change, 27 out of 35 enterprises (77 percent) disclosed that auditing continued to remain in its traditional mould and finally 22 out of 35 enterprises (63 percent) showed no change in their market position. 12 out of 35 enterprises (34 percent) reported a decisive shift in the recruitment system by way of curtailment, need based rationalisation of manpower, campus recruitment, group tests and interviews. 15 out of 35 enterprises (43 percent) felt that the terms and conditions of service have changed as related to conflict resolution, implementation of pay revision, improvement in general working conditions, recruitment of technicians and engineers on contract basis, quicker promotions, career plans for executives, better incentive schemes, change from central DA to industrial DA pattern and changes of designation. 10 enterprises (29 percent) noted a favourable change in interface relationship in the form of multi-point interface, memorandum of understanding parameters and increasing support from the government.

Table 6 Impact of NEP on the Working System

Working Systems	Change	No. of Enterprises	No change	No. of Enterprises
Recruitment	34%	12 / 35	66%	23 / 35
Terms & Conditions	43%	15 / 35	57%	20 / 30
Interface relationship with the company	29%	16 / 35	71%	25 / 35
Accountability	34%	12 / 37	66%	23 / 35
Budgeting	29%	10 / 35	71%	25 / 35
Auditing	23%	8 / 35	77%	27 / 35
Market position	37%	13 / 35	63%	22 / 35

Source: compiled from responses to questionnaire.

12 out of 35 enterprises (34 percent) effecting changes in the system of accountability pointed out the installation of a system of regular filing of returns by executives, formation of strategic business units, performance review vis-à-vis memorandum of understanding targets and unit heads accounting for all operations of the units and profits of the units. The budgeting changes brought about by 10 of the 35 enterprises ranged from complete revamp of the system, tightening of the expenditure budget, divisional budgeting with emphasis on value addition per employee, replacement of revenue budget by memorandum of association and empowerment of the units to act according to the budget approved. Only 8 of the 35 enterprises (23 percent) could effect the changes in

their internal audit system ranging from amendment of the internal audit manual to meet the strategy requirements and improve procedures, streamlining internal audit, engaging external experts, introduction of the concept of multi-discipline auditors and positioning several audit teams in the fields. Only 13 out of 35 enterprises (37 percent) effected changes in their marketing policies. These changes include formation of separate groups for international and domestic marketing, market based changes in prices, greater freedom to strategic business units and resorting to marginal pricing under competitive conditions. Though the boards should have ensured a climate for increased delegation and decentralisation, however a number of sample enterprises were reticent about it. Those who improved the climate for decentralisation and delegation gave adequate powers for profit making units, more delegation to GMs of units, delegation of administrative and financial powers to the head of marketing, full financial powers to the unit heads related to production, more and clear delegation to the line managers and senior officers. Only 13 out of 35 enterprises (37 percent) decentralised powers to units for sourcing of working capital and 16 enterprises (46 percent) to change diversification procedures.

The CEO is the hub of the corporate wheel. His contribution can make or mar the performance of an enterprise. The CEOs identified their contribution under some common focus areas such as targeting performance, R & D, ethics, JVs, export policies, restructuring, HRD, Business strategy budget estimates, draft MoU, industrial relations, productivity, rationalisation of labour, leadership, work ethics, indigenisation, export development, diversification, SWOT, customer focus, radical changes, turnover, fabrication, physical and financial performance, greater freedom for board, induction of non-government officials, revival package, removal of bottlenecks in capacity utilisation, strategic decision making. Table 7 shows that the contribution was more prominent in operational and routine areas. The CEOs could not pride themselves in areas such as corporate culture building, creation of a new regime of values and ethics and transforming public enterprises into self sustained organisations. 9 out of 35 enterprises (26 percent) viz., ANTRIX, BCPL, BDL, MFL, HPCL, HVOC, MAPL and NSICL and WPCS chose not to respond as to what was the most valuable contribution made by the CEOs during their tenure.

Table- 7 Contribution as Board Member

Name of the Enterprise	Most Important Contribution as Board Member
1. ANTRIX	No Response
2. BCPL	No Response
3. BDL	No Response
4. BEL	Targeting performance; R&D; ethics; JVs; export policy
5. BPCL	Restructuring
6. CMC	Restructuring; business strategy; HRD
7. CMPDL	GIS; computerisation of geological modeling; HRD
8. ECL	Budget estimates; draft MoU
9. GRSE	Industrial relations; productivity; rationalisation of labour
10.GSYL	Leadership; work ethics; nation building
11.HAL	Indigenisation; diversification; export development
12.HFCL	No Response
13.HLL	Diversification; industrial relations; overall performance
14.HPCL	No Response
15.HVOC	No Response
16.ITI	Turnover; sorted pending issues with DOT
17.MAPL	No Response
18.MECL	Radical changes; open mgt. & commitment; customer focus; computerisation
19.MTNL	SWOT of MTNL; Mission 2000; $ 418 million GDR issue.
20.MDL	Fabrication; installation of 11 well head platforms-ONGC-Neelam Project
21.MFL	No Response
22.NALCO	Physical & financial performance
23.NEPA	Product diversification; skilful fund mgt.; turn around of the sick unit
24.NHPC	Greater freedom for the Board, induction of non-govt. officials; greater delegation of power with increased responsibility & accountability

25.NPC	Removal of bottlenecks in capacity utilisation; effecting organisational changes
26.NSC	Diversification; production of high value crops
27.NSICL	No Response
28.ONGC	Policy changes; development of new sources of energy like CBM and gas hydrate
29.RCFL	Performance improvement & introducing discipline
30.SCIL	Consolidation of efforts to maintain profitability
31.SIIL	Felicitating decision making process at Board level; total participatory process; agenda in advance
32.STC	Responsible for the turnaround of Projects & Equipment Corporation of India Ltd.
33.TCIL	Formation of revival package for the sick unit TCIL; induction of JV
34.VSNL	Overall mgt. and strategic direction of VSNL
35.WPCS	No Response

Source: compiled from responses to questionnaire.

The management of environment is the key concern of the board. The corporate governance must ensure a healthy interface resulting in a higher growth. 16 out of 35 enterprises (45 percent) felt that economic reforms did not make any impact on pubic enterprises. 19 out of 35 (55 percent) enterprises felt that economic reforms created an impact in terms of parameters such as customer focus, downsizing, leading edge technologies, capacity utilisation, development of competitive edge, commercialisation, diversification, customer orientation, professionalisation, long term planning for growth, exit policy etc. That the corporate governance did not much improve in the sample enterprises is seen from the fact that 18 enterprises out of 35 disclosed there was no change in the management style even after the introduction of economic reforms. However, 9 out of 30 enterprises (30 percent) revealed that bureaucratic orientation changed significantly, 7 out of 35 enterprises (20 percent) noted that a significant change had taken place in their commercial orientation, 7 enterprises (20 percent) felt a significant change in their market orientation and 14 out of 35 enterprises (40 percent) felt that a significant change had taken place in their administrative orientation.

Conclusion

In the present era of transformational changes of accountability of business enterprises to society ensured by the instrumentality of corporate governance, the governing boards are destined to play a critical role. They should not only engage themselves in the traditional task of boundary management but should also constantly realign the working of the present day corporations with the environmental changes. Public enterprises in India continue to dominate the corporate world. The study of corporate governance function in the 35 responding public enterprises discloses that the corporate governance function is not in a healthy shape. The performance of both the boards and the CEOs does not equal to the norms advocated by the various expert committees and studies.

Public enterprise boards have to improve their style and content of functioning. The systemic change need to be effected to discard their existing procedures. The government will have to rapidly transfer the power of governance to these enterprises to benefit the society in general and ensure benefits accruing to it due to the ownership without the interference in their day to day management.

Abbreviations

1. ANTRIX	ANTRIX CORPORATION LTD.
2. BCPL	BENGAL CHEMICALS & PHARMACEUTICALS LTD.
3. BDL	BHARAT DYNAMICS LTD.
4. BEL	BHARAT ELECTRONICS LTD.
5. BPCL	BHARAT PETROLEUM CORPORATION LTD.
6. CMC	COMPPUTER MAINTENANCE CORPORATION LTD.
7. CMPDL	CENTRAL MINE PLANNING & DESIGN INSTITUTE LTD.
8. ECL	EDUCATIONAL CONSULTANTS INDIA LTD.
9. GRSE	GARDEN REACH SHIPBUILDERS AND ENGINEERS LTD.
10.GSYL	GOA SHIPYARD LTD.
11.HAL	HINDUSTAN AERONAUTICS LTD.
12.HFCL	HINDUSTAN FERTILIZER CORPORATION LTD.
13.HLL	HINDUSTAN LATEX LTD.
14.HPCL	HINDUSTAN PAPER CORPORATION LTD.
15.HVOC	HINDUSTAN VEGETABLE OILS CORPORATION LTD.
16.ITI	INDIAN TELEPHONE INDUSTRY
17.MAPL	MAHARASHTRA ANTIBIOTICS AND PHARMACEUTICALS LTD.
18.MECL	MINERAL EXPLORATION CORPORATION LTD.
19.MTNL	MAHANAGAR TELEPHONE NIGAM LTD.
20.MDL	MAZAGON DOCK LTD.
21.MFL	MADRAS FERTILIZERS LTD.
22.NALCO	NATIONAL ALUMINUM COMPANY LTD.
23.NEPA	
24.NHPC	NATIONAL HYDROELECTRIC POWER CORPORATION LTD.
25.NPC	NUCLEAR POWER CORPORATION LTD.
26.NSC	NATIONAL SEEDS CORPORATION LTD.
27.NSICL	NATIONAL SMALL INDUSTRIES CORPORATION LTD.
28.ONGC	OIL AND NATURAL GAS CORPORATION LTD.
29.RCFL	RASHTRIYA CHEMICALS & FERTILISERS LTD.
30.SCIL	SHIPPING CORPORATION OF INDID LTD.
31.SIIL	SPONGE IRON INDIA LTD.
32.STC	STATE TRADING CORPORATION OF INDIA LTD.
33.TCIL	TYRE CORPORATION OF INDIA LTD.
34.VSNL	VIDESH SANCHAR NIGAM LTD.
35.WPCS	WATER & POWER CONSULTANCY SERVICES (I) LTD.

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ROLE OF CHAIRMEN AND MANAGING DIRECTORS IN SLPEs – DISCUSSION

K S Bhat and R K Mishra

Introduction

In India besides central public sector undertakings, there are a large number of state level public enterprises (SLPEs). The role of SLPEs in the development strategy of the states covers infrastructure development, exploitation of local resources, promotion and balanced regional development, betterment of weaker sections and provision of utilities and services. It is estimated that there are more than 1000 such SLPEs in the country. The total number of SLPEs in Andhra Pradesh exceeds 50. in terms of organization pattern 35 of them are constituted under the companies Act, 5 are statutory corporations and the remaining are registered societies. Considering their environment, role and activities, they can also be catagorised into: (a) Competitive – commercial, (b) Non-competitive i.e., monopoly and commercial can be a useful framework for policy formulations, corporate management and performance evaluation of these enterprises[21]. It may be seen that except for about 12 enterprises which are competitive-commercial, all the rest are non-competitive and non-commercial to a large extent.

It is well known that SLPEs differ a grate deal from central enterprises in terms of size, greater bias towards social objectives, especially weaker sections, balanced regional development and provision of scarce commodities, services and utilities. In equal measure with these socio-economic factors, political expediency plays an important role in the case of SLPEs.

The other distinctions in the area of management of SLPEs as compared to central PEs are:

1. a priori, because of non-availability of professional mangers at the State level the SLPEs draw heavily from career civil servants.
2. There is considerable public interest representation on SLPEs boars; this gives the impression of "over politicization". Sometimes this leads to avoidable confusion – overlap of functions which affect the working of these Enterprises.

Because of the varied functions of SLPEs and representation of various interest groups or stake holders, including government and political functionaries, the corporate management of SLPEs has become very complex. The composition of Board of Directors (BOD) of SLPEs consists of nominee chairmen (part-time or full-time), nominee directors (official or non-official) and Chief Executive (VCMD). Te nominee directors are usually public figures, social workers, political personalities professional managers. For various reasons it has not been possible to truly professionalize SLPE management as in the case of central executives from the civil servants and public figures or social workers as chairmen or Board of Directors for these enterprises. There are a few exceptions where professional or technical managers hold both the chief executive's and chairmen's position.

The representation of wide and varying interests, background and levels of professional enterprise at corporate management level could lead to differing perceptions of their roles and functions. This paper attempts to examine this problems and present an analysis of perceptions of different people.

To obtain first-hand information on the current practices, the role perceptions of chairmen and managing directors, a semi-structured Basic Information Sheet was designed and sent out to all the SLPEs in Andhra Pradesh [22].

The typology of 25 responses received for the study is as follows:

1. Chairmen (PT) - Public figures (political & social workers)
2. Chairmen (PT) - Professional Managers

[21] See Annex - I
[22] See Annex - II

3. Chairmen (PT) - Civil Servants (ex-officio)
4. Chairmen (PV) - Professional
5. Chairmen & MD (PT) - Civil Servants
6. VCMD (FT) - Civil Servants
7. MD(FT) - Technocrat Managers

Among the responses, we have 8 from chairmen, of which 4 are from full-time CMDs and the other 4 are from part-time, among whom two are professional chairmen and two are political nominees. There are also 17 chief executives/VCMDs among the respondents, the majority of whom are career civil servants.

The Problem

Issues like PE – Government interface, composition and functioning of BOD, tenure and method of selection of chief executive and/or chairmen are important in the overall management of SLPEs; but the one which has assumed critical dimension appears to be the role, functioning and relationship between Chairmen (PT) and chief executive (FT) of the enterprise. It is observed that several chairmen though legally part-time or non-executive, believe they are "full-time" and spend upto 25 days a month in the corporations work. To facilitate their functioning an executive well-furnished office with a personal assistant, and some staff, besides honorariums are also provided. Some chairmen conduct extensive tours of their subordinate offices and customers. They also attend to matters of the BOD or directly. The increasing involvement of part-time chairmen in SLPE activities may create duel centres of power and control within the enterprise. At its worst, it can vertically divide the organization. The crux of the problem is how these two could share power for the betterment of the corporation.

Part-time Chairmen for SLPEs

There is no need to argue that the government should possess certain powers of control over public enterprises. This is essential to bring them in line with the requirements of current public policy. The alternatives are either no effective control at all or control by bodies without political responsibility both of which may be ruled out as harmful and /or impracticable. The appointment of public figures or political persons as part-time chairmen of SLPEs having dominant public purpose is aimed to fulfil this role. It is also a widely held belief that politicians are better change agents than bureaucrats and, therefore, public policies are better implemented through public men. In A.P. not only did such chairmen engage themselves full time in the activities of the corporation, but also formed "SLPE chairmen's Council" which meets regularly at least once a month. During these meetings performance review of the enterprises is taken up for discussion and reporting to higher political executives.

Chief Executives of SLPEs (VCMD or MD)

By and large, the majority of the Chief executives of SLPEs, (no exception in the case of A.P.) are drawn from the civil services, not necessarily based on careful evaluation of their suitability or expertise in public sector management. Perhaps, the designation of "vice-chairmen-cum-managing director" is more to satisfy the "ego" of the incumbent IAS officer than any functional. All techno-commercial managers appointed as chief executives of SLPEs are no given this privilege.

Taxonomy of SLPE Directors

Before discussing the roles and perceptions of the chairmen and MDs of SLPEs, it is worth analyzing be\briefly their background. Managing Directors, Directors, and chairmen of SLPEs with diverse background can be classified into "reluctant directors", "over ambitious directors" and "over committed directors"*. The reluctant director is the ex-officio director or government official posted as managing director belonging to All India services who normally receives no additional remuneration for the work they do at the corporation. They in turn commit themselves to nothing whether as a managing director or as an ex-officio director. He is also not hesitant to reverse his views for consideration at the ministry /

departmental level. The MDs who fall under this category are the deputations who are normally parent cadre. Though hs is a full-time chief executive i.e. becomes a reluctant functionaries. He does as little as possible and constantly looks forward to assess his prospects in the operation cadre. At the first opportunity in the cadre he a transfer.

The exception to this is the case of chief executives who are over ambitions. There are plum postings like Industrial Development Corporations, State Electricity Boards, Road Transport Corporations, State Financial corporations and profit-making manufacturing units. These are coveted jobs and officials are over zealous to get into these enterprises as chief executives, often pushing out their own cadre colleagues. It could also be noticed that whenever a change in ministry takes place these are the first casualties.

The over-committed director is normally a non-official director. He may be a politician chairman, currently unseated in the elections or otherwise unoccupied and enjoys considerable political patronage. Such a man shows a lot of Dynamism, as he wants to bring about changes and improvements. He is critical of the officials around him and readily entertains complaints about busy in the office as a full-time functionary attending to minor furnishings, making frequent use of the office car and other personal staff kept at his disposal, undertakes Bharat Darshan with an eagerness to learn his job and even makes visits abroad. He also takes lots of interest in giving contracts, making transfers and promotion of staff.

There can also be an idealist outside director, normally an academic with economic or management expertise or a social worker who believes that much can be done for the enterprise's operational efficiency. He frequently meets the board and makes startling proposals, and to his dismay the very soon realizes that he is regarded as a pest by the other directors.

Companies Act, Managing Director & Chairman

Section 291 of the Indian Companies Act empowers the board to perform all such acts and do all such things as the company itself is entitled to. And section (2) of the same Act defines the managing director as the one chow has substantial powers of managing the company under the superintendence, direction and control of the board. Thus the MD should be acting on the strength of delegation of duties and authority from the board. The intent of law seems to be to confer on the board all-inclusive "Management" of the enterprise through the chief executive. Here management would mean the broadest definition viz., policy, direction and implementation. The Companies Act recognizes the functionary chairman as full-time or part-time. If the chairman is full-time, then he has the powers and responsibilities of a chief executive. The MD then works under his direct supervision. In the case of the part-time chairman, he is the chairman of the board and not of the company. In such cases the chairman's role and responsibility lies essentially in conducting board meetings, guiding policy formulations at the meetings; operational management will then not be his responsibility. However,

With regard to the board meetings, the chairman's specific role is in regulating the board proceedings. He may do it after informal consultations with the MD on the agenda issues prior to the board meeting. During board deliberations his main task is to:

- Explain the context of the agenda.
- Regulate the discussions, after being a patient listener without ever dominating the proceedings.
- Maintain objectivity and impartiality to encourage all shades of opinion to be brought out.
- Provide and supplement wider horizons on issues under consideration. (This is specially required from public figures, social figures and social workers acting as part time chairmen).
- Sum up the proceedings at the end.

The chairman's position on the board is something like "primus inter paris" or the first among equals.

Theoretically a board member derives authority from when he enters the board room and leaves it behind when he leaves the room. But having said that, it must be reiterated that this assertion does not undermine the importance of non-executive, chairmen. Though legally the chairman (PT) has no greater authority than the other directors, in practice the position of chairman carries considerable power and influence of the BOD and government. In the present context of SLPEs it is also widely accepted that the non-executive chairman has a crucial role in monitoring management or evaluating its performance with respect to the objectives and policies framed by the government and BOD.

Chairman – MD Relationship and Role

The effective functioning of the SLPE largely depends on the relationship between the chairman and MD. The problem becomes acute when very senior civil servants are posted as MDs under public men. If the two do not get well, then the question may arise, who is the real chief executive – MD or chairman – this is the question in most of the SLPEs.

A significant issue of the corporate management of PEs and specifically SLPEs is the role of BOD, chairman and managing director. There are varying views on this. Some argue that these posts should be combined into one person. If they are separated, as in the case of most of the SLPEs, unless there is great understanding and congruence of culture, it is likely that dual leadership would take place thereby affecting the enterprise operations. Often in such cases unseemly tussles arise between the chairman and managing director when the former apparently oversteps his boundaries as a part-timer. On the other hand, arguing for separating the two posts, the chairman becomes something like the "speaker". The MD can concentrate on internal management, leaving the enterprise-environmental interface to the chairman. A chairman also adds to the image of the enterprise and inspires confidence in the consumers and public (especially if he is a public figure).

The concept of a part-time / non-executive chairman is that of a tempering agent. His role is intended to provide a balance for the board, of countering sometimes contrary influences exerted by the management team and political appointees. In fact, his role is that of a counsel and advising the management team, providing an over view on corporate affairs and to present unbiased, independent perspective on problems, more as an effective conceptualiser and co-ordinator.

III – Role Perceptions

So far we have discussed the problem of role, responsibilities and relationship between chairmen and MDs of SLPEs as well as their general background. With this, it is now useful for us to analyse and examine the basic information on experiences and perceptions furnished by a number of chairmen and chief executives of SLPEs in A.P. Broadly on the role definitions the following appears to be the consensus:

a)	Government	--	All matters of corporate objectives and policy with respect to SLPE; appointment of chairman, MD and nomination of directors; evaluation of performance.
b)	BOD	--	Laying down sub-policy and goals of the corporation within the government policy framework; monitoring and evaluating the performance of the enterprise and its various operational strategies.
c)	Chairman (PT)	--	Primarily guiding the BOD in framing the non-executive) sub-policy, environmental interface, conducting public relations, guidance and advice on operational management to the chief executive.

d)	CMD (FT)	--	Essentially strategic management of the SLPE with equal blend of sub-policy and operational management decisions.
e)	MD (FT)	--	Chief Executive – essentially operational management and low key policy formulation. Planning and budgetary programmes of the enterprise, controlling financial methods and reporting; studying organization questions and day-to-day operations.

It is simplistic to outline the roles and responsibilities of these top officials of SLPEs in the above form. As they come with varying background, culture, experience and stakes, their role perceptions and interpersonal views are bound to differ. In this context the views of the chairman and MDs who responded to this survey are briefly quoted below.

1) Civil Servant MDs working under professional part-time chairmen

"Though as per the Company Law there is no ambiguity in the role of chairmen and MDs, in my personal experience there has been no overlapping or divergence of approach or disagreement between chairman and the MD. However, it is essential for both the functionaries to recognize their respective roles and responsibilities. They need to functions strictly under this dispensation and personal rapport and understanding should be pillars on which their relationships should rest."

Another MD belonging to IAS on the question of overlap of functions between chairman and MD sums up "Actually in theory, they are not but in practice there are". Another MD suggests "If each works within their own jurisdiction efficiency will increase".

Another MD remarks "In this Corporation we have an excellent equation between the vice-chairman and MD and the chairman".

2) **Professional chairmen (part-time)**

Regarding the roles, responsibilities and relationship between he chairman and MD, one professional chairman stresses the need for good working relationship and suggests: "Chairman – for policy and overall guidance and the MD and Chief Executive has to manage the day-to-day affairs".

- "They should operate without ego problems
- They should not divide and rule the organization by encouraging groupism.
- The chairman should provide help to get clearances using his good offices with the ministers and others".

In other words he says "the Chairman should play the role of **Krishna** and Managing Director should play the role of **Arjuna**".

3) **Managing Directors under a politician chairman**

One views "While functionally there should be no overlapping in terms of the company Law, often in practice, the Chairman may like to know the operational management decisions. Entrepreneurs and customers may meet the chairman informally or formally and may like his intervention for securing their desired objectives. This is quite justifiable in the current democratic polity and corporate set up. The Chairman has two options: one in passing the representations to the Chief Executive and the other involving himself with the decision-making on such representations. In the latter option, there could arise areas of disagreement or even overlap".

4) **Politician Chairmen (PT)**

One chairman insists that "both the chairman and MD should meet daily and review the operations. He further suggests that both of them should continuously tour subordinate offices and make frequent inspections etc."

A second person outlines their roles in the following way:

"Chairman and Managing Director can decide the issues of urgent nature and then report to the Board for ratification".

"All appointments, promotions and transfers should be effected only with the approval of the chairman".

- All enquiry reports should be submitted to the chairman.
- Punishment and reinstatements are to be awarded with the approval of chairman.
- All business files including distribution and sales are to be submitted to chairman and orders obtained.
- The powers and responsibilities of the chairman and managing director are to be fixed specifically.
- The procedure existing in Secretariat between the Minister and Secretary to Government in all matters has to be adopted in a corporation between the chairman and MD.

The Chairman of a third corporation feels that the persons posted from government as MDs "lack business orientation and speedy decision-making styles". "People of proven business management skills only should be posted as managing directors, that too for longer tenures; in such short tenures as 3-6 months neither they contribute anything nor gain little."

5) **Full-time Chairman-cum-Managing Director**

When the two positions, chairman and managing director are combined in one person the question of conflict does not arise. Here the issues raised are on the tenure of the CMD his professional background and problems of interface with the Government. The views of two chairmen on this are as follows:

Case 1: The functions of Chairman of APSEB comprise equally of operational management at the broadest level and policy formulation in consultation with the board members. There is no separate Managing Director nor is there need for the same. The various Chief Engineers and other departmental heads look after the operational management in their respective departments at their level. There is a fair amount of funcitonalization in the Board member and this facilitates the overseeing by a member of the execution of policy and operational management by various department heads.

It is necessary to allow the board to function as per the provisions of the Electricity (Supply) Act 1948. interference in any matters except those concerning major matters of State Government needs to be avoided. As the development works are capital intensive in nature, the government should fully support its commitments to benefit the State Electricity Board and the State in the long run. Electricity Boards can run on commercial lines only when government makes good the loss sustained in taking up socio-economic schemes which are a drag on the finances of the institution. The tenure of the chairman should not be less than five years to allow his ideas to take concrete shape. Electricity Boards should always be headed by technocrats with considerable experience in the power field as 70% cost of schemes constitutes sophisticated material and design.

Case 2: The CMD opines

1. "Succession planning of C&MDs of the organization to be given adequate attention by the government of A.P.
2. Continuity of the C&MD level to be maintaining by the government by posting him for a period of 3 years.
3. Government to extend full support to the C&MD once he is carefully chosen and appointed and give him freehand to deliver the goods."

Against the above role perceptions, the inter-personal dynamics or the chemistry of relationship between the chairmen and MDs of SLPEs is analysed with respect to their formal meetings, reporting responsibility, size and frequency of board meeting and constitution of management committees.

Meetings between chairmen and Managing Directors

The pattern and frequency of meeting between the chairman and managing director is found to be as follows:

1. Political chairman and MD – regular/daily and weekly meetings.
2. Professional chairman and MD – weekly and fortnightly meetings
3. IAS chairman and IAS MD – as and when required

It has also been brought out that chairmen of the I category above spend 15-25 days in a month at the exclusive work connected with the corporation. Their regular meetings with MD, frequent visits to outstations, inspections of field offices, beneficiaries cannot be for anything other than operation management matters.

Reporting responsibility

Part-time chairmen consider their reporting responsibilities essentially to the minister, sometimes to CM and Government.

CMDs have indicated their reporting responsibilities to that of government, BOD and public.

The vice-chairmen and MDs have indicated their reporting responsibilities to that of BOD, government and Secretary to Government. In a few cases they imply that through BOD they are also reporting to the chairman.

Size of the BODs & Meetings

The size of the BODs for AP SLPEs varies from 2 to 15 members. It is interesting to find that larger enterprises have smaller boards and smaller enterprises especially in the welfare sector have larger boards with larger representations of the interest groups.

It has also been observed that professional boards with professional chairmen had more number of board meetings than other types of Boards. This highlights the fact that in such professionally managed boards of SLPEs, the forum of board room is judiciously used to frame corporation's policies, evaluate performance and give guidance to the executives.

Committees

One of the methods usually devised to ensure wider participation and consensus in decision-making is through the process of committees. The following are the typical standing committees, invariably with chairmen and MDs as members:

1. Tender, purchase on sales (as the case may be) committee
2. Service Matters committee – appointment, promotion, transfers
3. Budgeting committee

4. Project committee – site selection
5. Price fixation committee
6. Management committee
7. Co-ordination committee

There are cases of 4-5 such committees in a corporation with the chairman (PT) and MD as members. This obviously is a method of harmonizing their functioning and it may be worth evaluating the efficacy of this approach. It is an interesting observation that when a corporation has only a CMD or a MD and Secretary to the Government as chairman (PT) and the chief executive of a SLPE.

However, it should be pointed out that similar instances of role conflicts are not available between a techno-commercial/professional MD and a chairman (PT), either professional or political. Perhaps, one reason for such conflicts is the "ego" problem. Some chairmen feel that MDs with too short tenures considerable "ego" and formalities, distance themselves from the organizations which they have to manage. Question of team work and exploitation of organization synergies are normally absent to the detriment of the enterprise's performance.

On the other issue of communication, the chairmen, especially political and public figures, opine that the consumers/customers are in much closer touch with them as they make frequent visits to their areas and listen to their problems as compared to the generally status-conscious IAS MDs. When they come across delays and irregularities in implementation of programmes and receive innumerable complaints from customers, they have no alternative but to directly deal with the corporation officials. In what way is it irregular and ad justifiable on organization grounds? After all, the policies and programmes are aimed to reach the beneficiaries, an when due to bureaucratic systems, either they are delayed or denied, then what is wrong in the chairman directly intervening and ordering?

Another point of concern of the Chairmen is the short tenure of the MDs[23]. The present system of short tenure and "anyone can do anything as long as he is an IAS officer" is wrong. In such cases of short tenures neither can they contribute anything to the corporation nor gain any experience from it. What is more, when they are moved, the chairmen are not consulted as it is done on exigencies of services! Should they not be consulted before moving any MD? Some chairmen feel that it is better to post a person with professional (business) or techno-commercial outlook as MD than a civil servant.

Stories of mistrust, misunderstanding, bickerings and instances of stepping on each others toes between these two principal functionaries in a SLPE are many but the important issue is bridging an understanding and accommodation of each other's role for the corporate good.

Concluding Remarks

There exists some role conflict and overlap of responsibility between chairman (PT) and chief executive in a SLPE. These are more pronounced among chairmen (political) and MDs (civil servant)

In the context of the emerging roles and functions of part-time chairmen of SLPEs, a legal question is whether they are public servants and come under conduct and civil service rules?

SLPEs, especially in the welfare sector, with dominant public purpose, in the context of present political systems, responsibilities and priorities, would continue to have considerable political orientation through appointment of political figures as chairmen or nominee directors on the boards. In such a situation there is need to develop a system of better teamwork, understanding and rapport between the two key functionaries in a SLPEs, viz., Chairman and MD. Both need to recognize, appreciate and respect their mutual roles and responsibilities. Though, legally chairman (PT) may be non-executive, the government through such nomination apparently has assigned him important policy implementation role. The chief executives

[23] The average tenure of chief executives in A.P. is only 15 months and if 2-3 cases of long tenures are not considered, then the average tenure is a mere 11 months. There are SLPEs like Fisheries wherein 10 years more than 23 MDs were in position see Public Enterprises – A state perspective – B.R> Publ Co. pp 75-93.

appreciating this could adopt a more pragmatic and flexible approach. In most cases corporate team-work should prevail over rights, privileges and procedures.

The areas of conflict are essentially confined to operational decisions on the following issues:

a. Chairman's right to call for information and directly deal with corporation staff
b. Reporting responsibility and systems
c. Staff and service matters of employees selection, promotion, transfer and posting cases.
d. Purchase and contracting.
e. Sharing of credit and external publicity.

These manifest mainly on account of:

1. Gap in educational, cultural and experience background among the two
2. Though nominated as honorary chairmen, their belief that they are full-time appointees as chairmen of corporations and their eagerness to improve matters
3. Lack of accommodation and flexibility in styles of some chief executives
4. Belief that PEs responsibility and accountability rests with the MD while authority is exercised by the part-time chairman

One possible solution to this problem of role clarification between the chairman and MD in a SLPE could be the MBO approach where, each could broadly spell out their specific functions as illustrated below:

Chairman (PT)

- Environmental management – external socio –political issues
- Public relations and corporate image
- Guide BOD/MD to formulate corporate policies, strategies and programmes
- Monitoring implementation of corporate policies / programmes

Managing Director

- All matters of day-to-day operational management of the corporation
- Planning and budgetary programmes, controlling financial methods and reporting
- Staff matters and HRD
- Co-ordination with government department
- Institutional linkages

Chairman and MD could develop their objectives, key result areas and operating systems on the above lines. This could be an annual exercise, to be reviewed quarterly / monthly on fixed dates.

<u>Annex – I</u>

TENTATIVE CLASSIFICATION OF STATE LEVEL OF PUBLIC ENTERPRISES

A. Commercial –Competitive SLPEs

1. Hyderabad Allwyns
2. Hyderabad Chemicals and Fertilisers
3. Republic Forge Company

4. A P Scooters Limited
5. A P Steels Limited
6. Godavari Fertilisers
7. A P Heavy Machinery and Engineering Co.
8. A P Auto, Tyres and Tubes Limited
9. A P State Construction Corporation
10. A P State Warehousing Corporation
11. A P State Textile Development Corporation
12. Nizam Sugar Factory

B. Non-Commercial / Non-Competitive

1. Girijan Development
2. LIDCAP
3. A P S C Finance Corporation
4. A P Backward Class Finance Corporation
5. A P Women Cooperative Finance Corporation
6. A P Cooperative Finance Corporation
7. A P Handicapped Persons Welfare Corporation
8. A P State Minorities Corporation
9. A P Police Housing Corporation

Annex – II

C. Commercial Non-Competitive

1. Singareni Collieries Limited
2. A P S F C
3. A P I D C
4. A P S S I D C
5. A P I I C
6. State Electricity Board
7. Road Transport Corporation
8. A P Dairy Development Corporation
9. A N R I C H
10. A P Technology Services Corporation
11. A P Electronic Development Corporation
12. A P I T C O

D. Semi-Commercial Non-Competitive

1. A P Irrigation Development Corporation
2. A P Rural Irrigation Development Corporation
3. A P Film Development Corporation
4. A P Civil Supplies Corporation
5. A P Essential Commodities Corporation
6. A P State Forest Development Corporation
7. A P Oilseeds Growers Cooperative Corporation

E. Medium – Competitive / Commercial

1. A P Agro Industries Corporation
2. A P State Trading Corporation
3. A P Fisheries Corporation
4. A P Travel & Tourism Development Corporation
5. A P Seeds Development Corporation
6. Handloom Weavers Cooperative Society
7. A P State Meat and Poultry Corporation
8. A P State Housing Corporation
9. A P Housing Board
10. A P Handicrafts Development

Process Data on PE Boards in 21st Century: Challenges ahead♣

R K Mishra

♣ These data relate to a research study on the topic being perused at IPE by Dr R K Mishra, Dr Lakshmi, Ms J Kiranmai and Ms S K Lalitha

Questionnaire Inputs

Section 1- General Information

Table: 1.1 Personal Data (Q. 1 to 3)

Name of the Enterprise	Age (yrs)	Previous Experience		Most Important Contribution as Board Member
		Public sector	Private sector	
1. ANTRIX	49	nil	-	Na
2. BCPL	55	5	-	-
3. BDL	58	nil	nil	Na
4. BEL	54	3	4	Targeting performance; R&D; ethics; JVs; export policy
5. BPCL	50	2	2	Restructuring
6. CMC	56	8	-	Restructuring; business strategy; HRD
7. CMPDL	55	Nil	Nil	GIS; computerisation of geological modeling; HRD
8. ECL	43	6	-	Budget estimates; draft MoU
9. GRSE	58	-	-	Industrial relations; productivity; rationalisation of labour
10.GSYL	54	3	-	Leadership; work ethics; nation building
11.HAL	57	9	-	Indigenisation; diversification; export development
12.HFCL	57	Nil	Nil	Na
13.HLL	54	nil	nil	Diversification; industrial relations; overall performance
14.HPCL	57	9	12	Na
15.HVOC	47	Nil	Nil	-
16.ITI	57	nil	nil	Turnover; sorted pending issues with DOT
17.MAPL	56	11	nil	-
18.MECL	54	nil	nil	Radical changes; open mgt. & commitment; customer focus; computerisation
19.MTNL	57	Nil	Nil	SWOT of MTNL; Mission 2000; $ 418 million GDR issue.
20.MDL	57	2	-	Fabrication; installation of 11 well head platforms-ONGC-Neelam Project
21.MFL	43	-	-	-
22.NALCO	56	Na	Na	Physical & financial performance
23.NEPA	56	3	4	Product diversification; skilful fund mgt.; turn around of the sick unit

24.NHPC	53	Na	Na	Greater freedom for the Board, induction of non-govt. officials; greater delegation of power with increased responsibility & accountability
25.NPC	59	3	-	Removal of bottlenecks in capacity utilisation; effecting organisational changes
26.NSC	43	3	-	Diversification; production of high value crops
27.NSICL	55	-	4	-
28.ONGC	57	10	-	Policy changes; development of new sources of energy like CBM and gas hydrate
29.RCFL	55	10	-	Performance improvement & introducing discipline
30.SCIL	53	8	-	Consolidation of efforts to maintain profitability
31.SIIL	53	-	-	Felicitating decision making process at Board level; total participatory process; agenda in advance
32.STC	51	8	-	Responsible for the turnaround of Projects & Equipment Corporation of India Ltd.
33.TCIL	59	-	2	Formation of revival package for the sick unit TCIL; induction of JV
34.VSNL	57	-	-	Overall mgt. and strategic direction of VSNL
35.WPCS	55	-	-	No

Section 2 – Composition, Role & Functions of the Boards

Table: 2.1.1 Composition of Board (Q.1.1 to Q.1.3)

Name of the Enterprise	Size of Board as per AoA	Present Size	Composition						
			a	b	c	d	e	f	e
1. ANTRIX	12	5	-	Nil	2	Nil	Nil	3	Nil
2. BCPL	2-12	6	2	Nil	2	1	1	-	-
3. BDL	15	12	3	-	3	-	-	-	5
4. BEL	3-15	15	7	-	2	-	6	-	-
5. BPCL	3-12	8	5	Nil	3	Nil	Nil	Nil	Nil
6. CMC	9	9	3	-	2	-	-	4	-
7. CMPDL	3-15	8	3	-	1	-	1	3	-
8. ECL	12	7	1	-	2	-	-	4	-
9. GRSE	2-15	11	4	Nil	7	Nil	-	Nil	Nil
10.GSYL	11	6	1	Nil	2	Nil	1	-	2
11.HAL	18	10	4	-	2	-	-	1	3
12.HFCL	2-12	4	1	Nil	2	1	-	-	-
13.HLL	2-10	5	1	Nil	2	1	Nil	1	Nil
14.HPCL	2-12	5	2	-	2	1	-	-	-
15.HVOC	2-12	4	1	Nil	3	Nil	Nil	Nil	Nil

16.ITI	3-15	8	4	-	4	-	-	-	-
17.MAPL	3-12	6	1	-	1	2	2	-	-
18.MECL	3-12	5	3	-	1	-	1	-	-
19.MTNL	12	5	3	Nil	2	Nil	Nil	Nil	Nil
20.MDL	2-15	10	4	Nil	2	Nil	4	Nil	Nil
21.MFL	12	8	1	-	3	1	-	-	3
22.NALCO	12	7	5	-	2	-	-	-	-
23.NEPA	4-12	5	2	Nil	5	Nil	Nil	1	Nil
24.NHPC	15	10	4	-	4	-	-	1	-
25.NPC	11	8	3	Nil	5	Nil	Nil	Nil	-
26.NSC	16	11	2	-	3	1	-	3	2
27.NSICL	7-15	7	1	-	2	1	-	-	3
28.ONGC	4-21	11	7	-	3	-	-	-	1
29.RCFL	12	6	3	Nil	3	Nil	Nil	Nil	Nil
30.SCIL	3-14	12	6	Nil	2	1	1	2	-
31.SIIL	8	6	2	-	3	-	-	-	1
32.STC	4-14	8	6	-	2	-	-	-	-
33.TCIL	3-12	4	1	-	2	1	-	-	-
34.VSNL	12	5	3	-	2	-	-	-	-
35.WPCS	3-12	9	1	Nil	5	Nil	Nil	3	-

Note: a - Internal members from the enterprise ; b - Workers' representatives
c – Government's nominee(s) ; d – Nominee(s) from Financial Institutions
e – Ex- officio members; f – External Professionals/ Expert Members
g - Others

Table: 2.1.2 Number of BoDs (Q. 1.4 to 1.7)

Name of the Enterprise	Need to enhance no. of Directors? (Y/N)	Areas to be represented		Need to reduce no. of Directors? (Y/N)	Should PEs have Government Nominees? (Y/N)	Role of Government Nominees in the Board
		Internal	External			
1. ANTRIX	**Y**	Business development, marketing, production, technical services	Technocrats, Industrialists	**N**	**Y**	Take care of Govt. investment and ensure adequate return thereon. Assist in getting govt. approvals.
2. BCPL	**Y**	Marketing, Production, R & D	Technocrats	**N**	**Y**	To Improve organisational efficiency.
3. BDL	**Y**	Director – Production, P&A	Retired Govt. officials	**N**	**Y**	Constructive and proactive.
4. BEL	**N**	Nil	Nil	**N**	**Y**	Proper utilisation of public funds, effective interface between company and govt.

5. BPCL	**N**	-	-	**N**	**Y**	Provide a vital two way link between company policies, strategies and growth plans with govt. policies and plans.
6. CMC	**N**	-	-	**N**	**Y**	Fulfillment of Govt. expectations, facilitating govt. clearances and approvals
7. CMPDL	**N**	-	-	**N**	**Y**	To ensure govt. policies and guidelines are not violated.
8. ECL	**Y**	Finance, Technical	Nil	**N**	**Y**	Take care of approvals required from Govt.
9. GRSE	**N**	-	-	**Y**	**Y**	Active participation and burden sharing.
10.GSYL	**Y**	Finance, Personnel	2 practicing managers from public, private sector; 2 retired govt. officials	**N**	**Y**	Finding and bring in fore view points but not to enforce any issue.
11.HAL	**Y**	Director, Marketing	Technocrats, Management Consultants, Industrialists	**N**	**Y**	To guide the Board on all Govt. policy matters and ensure compliance.
12.HFCL	**Y**	Financial / Technical Investments / Project execution / planning	2 Technocrats, 1 Management Consultant.	**N**	**Y**	Strengthening the coordination and clearance of various proposals from Govt.
13.HLL	**N**	-	-	**N**	**Y**	Bridge the gap between the company and the Govt.
14.HPCL	**Y**	Experts in the field of marketing, Pulp and Paper, member traffic – Railway Board.	Technocrats	**N**	**N**	-
15.HVOC	**N**	-	-	**N**	**Y**	Help enterprise in taking decisions in line with govt. policies and programmes.

16.ITI	**Y**	CMD, Director – Finance, R&D, Marketing, Operations, Production	Management Consultant, Industrialists	**N**	**Y**	Ensure vast potentials of PSUs are utilised. Assist PSU management in getting necessary assistance from Govt.to provide level playing field.
17.MAPL	**N**	-	-	**N**	**Y**	To help in getting proposals true on policy matters and on restructuring and revival.
18.MECL	**Y**	Mining Engineering	Technocrats, Management Consultants, Practicing Managers from public, private sector	**N**	**Y**	Getting support from govt. on key issues, policy matters and clearance of projects.
19.MTNL	**Y**	Finance and Technical, Personnel	Practicing managers, Retd. Officials, consumer representatives	**N**	**Y**	To convey the policy direction of the govt. on any issue.
20.MDL	**N**	-	-	**N**	**Y**	Confine to policy formulation, managerial control and coordination
21.MFL	**Y**	Finance, Technical, Marketing, P&A.	Mgt. Consultants, Industrialists	**N**	**Y**	Ensure business of company is carried out in a professional manner.
22.NALCO	**Y**	Marketing	Technocrats, Mgt. Consultants, Industrialists	**N**	**Y**	Take care of interests of govt. as a share holder.
23.NEPA	**Y**	Labour, Technical, Commercial	Technocrats, Practicing Managers, Retd. Officers, Industrialists, Consumer Representative	**N**	**Y**	Liaisoning with government / Ministry
24.NHPC	**Y**	-	Technocrats, Mgt. Consultants	**N**	**Y**	Presenting view points of the organisation more effectively to ministry for improval of funds
25.NPC	Y	Financial Management, HRD	-	**-**	**-**	Proper advice in scientific and technical areas as well as in tariff matters.

26.NSC	**Y**	Production, Marketing, R&D	Technocrats, Consumer representatives	**N**	**Y**	Constructive
27.NSICL	**Y**	Finance, Technology	Technocrats, Mgt.Consultants, Practicing managers, Industrialists	**N**	**Y**	Help policy makers to understand the organisation.
28.ONGC	**Y**	-	Mag.consultants, practicing managers, Industrialists	**N**	**Y**	Give the final view of the govt. on any point raised in the Board meeting.
29.RCFL	**Y**	Personnel & HRD	Technocrats, Mgt. Consultants, Public Managers, Industrialists.	**N**	**Y**	Act as catalyst between the govt. and the company. Ensure compliance of various instructions of the ministry.
30.SCIL	**N**	-	-	**N**	**Y**	Express govt view on the subjects for deliberation in the Board meetings.
31.SIILY	**Y**	-	Technocrats	**N**	**Y**	Assist company through their inputs in strategic planning, provide support in controlling external environment. Provide guidance and bridge in the knowledge gap in areas like technical / marketing. Finance / HR / Operations.
32.STC	**N**	-	-	**N**	**Y**	Oversee the implementation of the policy guidelines of the govt. and safe guard govt interests as a shares holder
33.TCIL	**Y**	Commercial,	Industrialists	**N**	**N**	-
34.VSNL	**Y**	Network, Human Resources	Technocrats, Retd. Officials, consumer representatives	**N**	**Y**	Should consider the business of PSU angle rather than from conventional govt. angle.
35.WPCS	**Y**	Technical Director, Finance, P&A.	Mgt. Consultant	**N**	**Y**	Pro active in respect of advising on possible impact of govt. policies on the functioning of PSUs.

Table: 2.2 Role of BoDs and Board Meetings (Q.2.1 to 2.3)

Name of the Enterprise	What is the Role of the BoDs Formal & Informal	Do Board Members give constructive suggestions (Y / N / Sometimes)	Are you satisfied if all your suggestions are given consent to by the Board (Y/N)
1. ANTRIX	-	**Y**	**Y**
2. BCPL	Over all policy guidelines : to help the company to prepare long range plans, appointment of key managers.	**Y**	**N**
3. BDL	Board will have to the cohesive and play a progressive role in shaping the destiny of the company	**Y**	**Y**
4. BEL	Setting corporate machine, objectives, goals, reviewing the performance, framing corporate policies and conducting SWOT analysis.	**Y**	**N**
5. BPCL	Setting the companies strategic aim, providing leadership, supervising management of the business, reporting to shareholders on Board's / stewardship.	**Y**	**N**
6. CMC	Guide lines of DPE should only be guidelines and not rules. Board should have powers to look into salary perquisites, profitability, etc.	**Sometimes**	**N**
7. CMPDL	Advising and guiding the Board, cautioning the board about pitfalls.	**Y**	**N**
8. ECL	To provide directions for growth of the company and monitor progress in constructive manner.	**Sometimes**	**N**
9. GRSE	Board must be the supreme policy making body to manage the company in the best interest of the enterprise. Govt. should not try to do backseat driving through nominated directors.	**Y**	**N**
10.GSYL	Chairman should take the decision with informal / formal advice from the Board.	**Sometimes**	**N**
11.HAL	Policy formulation and updating review, monitor implementation of plans, ensure compliance of laws, guide in technology updation, give fillip to R&D effort, monitor progress of new projects / diversification programmes.	**Y**	**N**
12.HFCL	Give their view points and benefit of their experience in taking major policy decision.	**Sometimes**	**Y**
13.HLL	BoD should be able to give professional guidance to the corporate body.	**Sometimes**	**N**
14.HPCL	Directors should meet in Board meetings to approve various growth oriented agenda with pragmatic views in regard to size, nature and tough external competition.	**Y**	**N**
15.HVOC	As under MoA and AoA.	**Y**	**Y**
16.ITI	Formulation of policy guidelines, superintendence, formation of JVCs, foreign collaboration.	**Y**	**N**
17.MAPL	To manage business of the company by exercising all such powers within the frame work of the Companys Act.	**Y**	**N**
18.MECL	To guide the company towards growth in today's competitive market, lay down policies and monitor its implementation.	**Y**	**N**

19.MTNL	BoD should give a feedback on the performance of the company based on the knowledge and interaction with the members of the public.	**Sometimes**	**N**
20.MDL	Role of the Board should be confined to setting up targets of production in terms of quantity and value; review of actual production vis-à-vis targets; assessment of under utilisation of capacity by determining attainable production vis-à-vis firm orders / projected demand; prescription of standards of equipment utilisation, broad targets of inventory levels.	**Y**	**N**
21.MFL	Board should monitor executive management; should present a balanced and understandable assessment of company's position; should establish an audit committee; should devote time and effort to attend meetings. (see annexure)	**Y**	**N**
22.NALCO	To set goals, to set over all policies, to decide strategies for future.	**Y**	**Y**
23.NEPA	To guide senior level management on policy matters; interact with ministries in government and other agencies to further development of the organisation. General image building for the company in different flora.	**Y**	**N**
24.NHPC	Board should guide the organisation in the short and long term plans. Extend advice and assistance in technical, financial, administrative and organisational matters to ensure best performance. Board should be a vocal mouth piece to project corporation's achievements and aspirations and protect the same from adverse actions and reactions from various quarters.	**Sometimes**	**Y**
25.NPC	BoD should be mainly concerned with formulation of policy and to review the performance of the on-going projects, performance of the operating stations and exercise the powers which are vested in the BoD with regard to sanctions and approvals.	**Y**	**N**
26.NSC	More concentration on practical operational aspects. Free and frank brain storming discussion. Each and every director should be heard.	**Sometimes**	**Y**
27.NSICL	Board should be available to visualise the future scenario and direct accordingly the future activities. Monitor aspiration of the service user, general economy and employees to give proper policy direction. Adopt techniques of successful managerial practices of private sector boards.	**Y**	**N**
28.ONGC	Develop a long lasting vision of the company. Provide strategic direction, promote business and ensure long term growth, add value in large investment decisions, encourage creativity, technology up-gradation and value based business.	**Y**	**N**
29.RCFL	BoD is the pivotal authority created by the company. Role is mainly in laying down policies and ensure strategic and long term plans are carried out. Role is insignificant in the field of development and creation of core competence.	**Y**	**N**
30.SCIL	See Annexure	**Y**	**N**

31.SIIL	Assist company through their inputs in strategic planning, provide support in controlling external environment. Provide guidance and bridge in the knowledge gap in areas like technical / marketing. Finance / HR / Operations.	**Sometimes**	**N**
32.STC	Formulation of corporate plan / policies / strategies. Fixation of targets and laying down of control / monitoring mechanism.	**Y**	**N**
33.TCIL	To evolve strategic plan, its implementation monitoring.	**Sometimes**	**N**
34.VSNL	A combination of formal and informal roles is desirable. The board members may if need be have to formal advance discussions to arrive at formal decisions.	**Y**	**-**
35.WPCS	The directors in the respective professional field apart from dwelling on board proceedings shall also share the responsibility to develop strategies and plan for business development and to be proactive in resolving key issues in the implementation process. This interaction shall be through a sub-committee which shall function under the CMD and report to the Board from time to time.	**Sometimes**	**Y**

Table: 2.2.1 Frequency of Board Meetings (Q. 2.4 to 2.5)

Name of the Enterprise	Frequency as per AoA	1991-92			1992-93			1993-94			1994-95			1995-96			1996-97		
		1	2	3	1	2	3	1	2	3	1	2	3	1	2	3	1	2	3
1. ANTRIX	1/3	-	-	-	2	2	8	4	4	6-8	4	4	5-7	4	4	5-7	4	4	3-5
2. BCPL	1/3	-	5	5	-	5	5	-	5	7	-	4	5	-	3	7	-	6	7
3. BDL	1/3	4	4	8	4	5	9	4	6	10	4	5	11	4	4	10	4	5	9
4. BEL	1/3	4	6	9	4	6	11	4	7	9	4	7	8	4	7	9	4	6	9
5. BPCL	1/3	4	7	-	4	8	-	4	6	-	4	9	-	4	9	-	4	11	-
6. CMC	1/3	-	-	90%	-	-	90%	-	-	90%	-	-	90%	-	-	90%	-	-	90%
7. CMPDL	1/3	4	5	4-7	4	4	6-10	4	6	3-12	4	4	5-9	4	4	6-10	4	8	3-8
8. ECL	1/3	4	4	-	4	4	-	4	4	-	4	4	-	4	4	-	4	4	-
9. GRSE	1/3	4	5	7-8	4	5	7-8	4	5	6-7	4	5	6-7	4	5	7-8	4	5	6-7
10.GSYL	1/3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11.HAL	4 TIMES	4	7	13	4	6	12	4	5	11	4	7	9	4	5	10	4	6	9
12.HFCL	1/3	-	7	-	-	6	-	-	7	-	-	10	-	-	5	-	-	10	-
13.HLL	1/3	4	5	10	4	6	25	4	4	19	4	5	21	4	3	12	4	5	16
14.HPCL	1/3	4	5	27	4	6	32	4	5	20	4	4	18	4	4	22	4	6	36
15.HVOC	1/3	4	4	3	4	4	4	4	7	4	4	7	5	4	9	5	4	8	4
16.ITI	1/3	4	6	-	4	5	-	4	7	-	4	7	-	4	8	-	4	8	-

17.MAPL	1/3	4	4	21	4	4	16	4	4	17	4	5	24	4	4	20	4	4	18
18.MECL	1/3	4	6	9-10	4	5	5-6	4	4	4-5	4	6	4-5	4	5	3-4	4	6	4-6
19.MTNL	1/3	4	6	-	4	6	-	4	11	-	4	11	-	4	11	-	4	8	-
20.MDL	1/3	4	7	9	4	8	8	4	9	9	4	6	8	4	7	8	4	6	8
21.MFL	1/3	4	5	5	4	7	4	4	5	5	4	5	6	4	5	6	4	5	6
22.NALCO	1/3	4	7	-	4	9	-	4	7	-	4	11	-	4	1	-	4	7	- See Annexure
23.NEPA	1/3	4	4	27	4	5	13	4	7	20	4	6	16	4	7	20	4	4	11
24.NHPC	1/3	4	8	-	4	11	-	4	8	-	4	11	-	4	13	-	4	9	-
25.NPC	1/3	4	7	5	4	4	5	4	5	4	4	4	3	4	6	5	4	5	5
26.NSC	1/3	4	-	-	4	-	-	4	-	-	4	6	70%	4	5	70%	4	5	60%
27.NSICL	1/3	4	7	30	4	6	22	4	5	20	4	5	24	4	5	30	4	6	42
28.ONGC	1/3	-	-	-	-	-	-	-	-	-	4	14	-	4	8	-	4	6	-
29.RCFL	1/3	4	14	>75%	4	7	>75%	4	9	>75%	4	12	>75%	4	7	>75%	4	18	>75%
30.SCIL	1/3	4	10	7	4	11	6	4	8	8	4	8	6	4	11	8	4	9	7
31.SIIL	1/3	4	6	22	4	4	14	4	4	18	4	4	20	4	4	18	4	5	19
32.STC	1/3	4	11	78/11	4	9	40/9	4	4	26/4	4	6	29/6	4	8	44/8	4	8	52/8
33.TCIL	1/3	4	5	-	4	4	-	4	4	-	4	4	-	4	5	-	4	4	-
34.VSNL	1/3	4	5	31/35	4	5	28/36	4	7	37/42	4	7	28/41	4	7	35/37	4	9	45/47
35.WPCS	1/3	4	4	-	4	4	-	4	4	-	4	4	-	4	4	-	4	5	-

1- No. of meetings required to be held
2- No. of meetings actually held
3- No. of members that attended

Table- 2.2.2 Agenda for Meetings (Q. 2.6 – Q. 2.12)

Name of the Enterprise	Are Board Members consulted in preparation of agenda? Y / N / Sometimes	Agenda is available in advance of .. (days)	Decisions are arrived at by / through..	Normal duration of the meeting (Hrs)	No. of items generally covered in the agenda	Nature of the items	
						Routine: New	Policy : Operational
1. ANTRIX	**Y**	**7**	Unanimously	**2-3**	**< 10**	5:2	1:2
2. BCPL	**Sometimes**	**7**	Unanimously	**2**	**21-25**	15	3
3. BDL	**N**	**15**	Unanimously	**3**	**21-25**	10	5
4. BEL	**Sometimes**	**7-15**	Unanimously and by consensus	**2.5 – 5**	**11-15**	6 R	1-2 P 4-5 O
5. BPCL	**Y**	**<7**	Unanimously	**2-3**	**21-25**	78% : 22%	14% : 86%
6. CMC	**Sometimes**	**7**	Consensus	**3-4**	**11-15**	3-4 N	2 O
7. CMPDL	**Y**	**7**	Consensus	**Up to 3**	**11-15**	6:6	6:6
8. ECL	**N**	**7**	Unanimously	**2 – 2.5**	**11-15**	5-6	5-6
9. GRSE	**Y**	**10**	Consensus	**3-4**	**16-20**	6-7	6-7
10.GSYL	**N**	**15**	Unanimously	**3-4**	**11-15**	5-10 N 1-5 R	3-4 P
11.HAL	**Y**	**7**	Consensus	**Once in 2 months**	**11-15**	5:6	4:5
12.HFCL	**N**	**7**	Unanimously	**3-8**	**11-15**	4 R 12-15N	3-5
13.HLL	**N**	**7**	Consensus	**-**	**16-20**	< 50%	About 20%
14.HPCL	**Sometimes**	**7**	Consensus	**2-3**	**11-15**	10 R	3-5
15.HVOC	**Y**	**< 7**	Unanimously	**1**	**11-15**	50-50	50-50
16.ITI	**Sometimes**	**7**	Consensus	**5**	**11-15**	8 R 9 6 N	About 4
17.MAPL	**Y**	**15**	Unanimously	**4**	**16-20**	4	3-4
18.MECL	**Y**	**7**	Unanimously	**3-4**	**11-15**	5-7	4-5
19.MTNL	**Sometimes**	**<7**	**Consensus**	3-4	**11-15**	50%	**50%**
20.MDL	**Y**	**7**	Consensus	**4-6**	**16-20**	50%	75%0:25 %P
21.MFL	**Sometimes**	**15**	Unanimously	**4-5**	**16-20**	15R 5N	15O 5P

22.NALCO	**Y**	**7**	Consensus	**3**	**16-20**	50%	50%
23.NEPA	**N**	**7**	Consensus	**3**	**<10**	3R 2N	2P 4O
24.NHPC	**Y**	**7**	Unanimously	**2-3**	**11-15**	3-4	1-2P 3-4O
25.NPC	**Sometimes**	**15**	Unanimously	**-**	**16-20**	25%	>25%
26.NSC	**Y**	**7**	Consensus	**-**	**11-15**	5-6R 5-6N	3-5P 5-7O
27.NSICL	**Sometimes**	**7**	Unanimously	**2-3**	**11-15**	20%	50%
28.ONGC	**Y**	<7	Unanimously	**3**	**26-30**	Mostly new	Almost all
29.RCFL	**Sometimes**	**7**	Unanimously	**4-5**	**21-25**	50%	80-85%
30.SCIL	**Sometimes**	**7**	**consensus**	**2-3**	**16-20**	35%R 65%N	30P 70O
31.SIIL	**Sometimes**	**15**	**Mix-need specific**	**3**	**21-25**	4-5R 6-8N	5-10
32.STC	**Sometimes**	<7	**Consensus**	**2**	**11-15**	10-12R 2-3N	1-2P 10-12O
33.TCIL	**Sometimes**	**7**	**Unanimously**	**2-3**	**<10**	80%	10-20%
34.VSNL	**Y**	**7**	**Unanimously**	**4-6**	**16-20**	50%	30%:70%
35.WPCS	**Sometimes**	**7**	**Consensus**	**3-4**	**11-15**	10R 5N	8 approx.

Table-2.3 Delegation and Decentralisation (Q.3.1 – Q.3.3)

Name of the Enterprise	Committees constituted by Board			Frequency of Committee Meetings	To what extent have these Committees been able to achieve their objectives?
	Name	Member	Prime Function		
1. ANTRIX	-	-	-	-	**-**
2. BCPL	Sub	MD, D/r SS, D/r DFA, SP, D/r	Monitor the progress of development of Mumbai property	Need based	**Fully**
3. BDL	-	-	-	-	**-**

4. BEL	1.Share transfer R&D 2.Capital projects 3.Components distribution 4.Appointment GMs	CMD , D(f), 1-part time D CMD, D(R&D), senior most customer rep, DRDO rep, D(f) CMD, D (F) , DCMS , D (R&D), concerned ED, 1 senior most part time D, 1ministry rep CMD, DCMS, D (f),1 part time official D CMD, 2 functional Ds, 1 part time D	Consider share transfers Consider R & D policy & projects approval and review Consider all new project proposals and advise Board Appointment of Distributors etc., Filling up GMs	As per requirement	**Fully**
5. BPCL	1.Standing Com. Of the Board for tenders 2.Stan.com. on Brds. For the release of flats 3.Departmental promotion 4. Stand.Co. of issue os hare certificates 5.stand.Com. for transfer of shares 6.Audit Committee	CMD, D-p,m,r,f CMD, D-p, f, JS-M of MOP and NG CMD,D-p,m,r,f,Js-M, of MoP and NG 2 whole time D, 2 part time Ds 2 Ds 3 part time Dirs.	Decide on tenders as per delegation of powers Decide on release of flats Consider promotions to JG G & above Issue of share certificates Approval of tranfer and transmission of shares/debentures Review of audit compliances etc.	Need based	**Fully**

6. CMC	1.Pay revision 2.Share transfer 3.Financial restructuring	Finance Dir, Fin rep of Govt. Finance Dir, Fin rep of Govt. Finance Dir, Fin rep of Govt., mgt.expert	Draft changes requires in the general pay commission recom. Examination of the validity and genuineness of the transfer Examination of financial options	3-4 Once in 15 days Once in a month	**Moderately**
7. CMPDL	-	-	-	-	**-**
8. ECL	-	-	-	-	**-**
9. GRSE	Investment of temporary surplus funds Disciplinary action com. DPC 1 & 2	CMD, D-f,fsp, 1 govt. nominee, D-f CMD, All whole time functional Ds, 1 govt. nominee	Investment of funds in surplus as per DPE guidelines Consideration of the appeals Promotion to selective grades	Once in a week Need based July & August	**Fully**
10.GSYL	-	-	-	-	**-**
11.HAL	Mgt. Com. Decision Policy Com.	Chairman, MD-B, M,A, D-f,p & D-PA Chairman, MD-B, M,A, D-f,p & D-PA Scientist who is par time non-official Dir.	Annexure-A Annexure-B	Once in 2 months	**Moderately**
12.HFCL	Finance Sub	CMD, special Dir, I Dir CMD, special Dir, I Dir	Review & monitor finance matters and observations of auditors For a specific purpose	Once in every 2 months	**Fully**

13.HLL	Recruitment/promotion Audit sub com.	CMD, Dirs. & senior officers ED-f, 2 Dirs	Recruitment & promotion of senior officers Discus & finalise audit para of the company	Need based	**Partially**
14.HPCL	Pricing	CMD, D-f,o,ED-mktng, MDs of subsidiaries, Eds of HPC Mills	To decide about the pricing of the news print, writing and printing paper	Need based	**Moderately**
15.HVOC	-	-	-	-	**-**
16.ITI	Share/bonds transfer com. Restructuring of ITI	D-f CMD, D-R&D, Deputy D-general, p, DoT, STQC and Advisor DoE, PF, DoT	Consider and approve the transfer proposals Proposal internal restructuring of the company	Once in 15 days	**Fully**
17.MAPL	-	-	-	-	**-**
18.MECL	-	-	-	-	**-**
19.MTNL	Share transfer	Any 2 Directors	All work relating to share transfer & transmission etc.	Once in 15 days	**Fully**
20.MDL	Sub com of 2/3 Brd. Dirs`.	Dirs –CP&P, Dir-Ship Building, Dir-fin	Affix common seal on every deed / instrument to which seal of the company is required to be affixed as authorised by Board.	Need based	**Fully**
21.MFL	Share transfer Board sub Com Sucession Plan	CMD , 2 Dirs,	Approve share transfer / transmission Approve project proposals Consider appointments/promotions to the positions of DGMs/JGMs/GMs.	Every 15 days Need based Need based	**Fully**
22.NALCO	Stand.Com. Share tranf.com.	CMD, Dir P&T, P&A , Head of Mktng. Dept. Dir-pfp & a	Decide sale orders over Rs.30 Crore Approve share transfer activities	Twice a month Around 3 times a month	**Fully**

23.NEPA	UPP Shares-sub Personnel selection	CMD, Dir, DGM-IA, DM –UPP CMD, Secretary CMD, 2 Ds, 1 outside expert	Implementation of Up project by private investor Technical & priced commercial bid by UP Newsprint project Approve routine share transactions Recruit senior officials below Board level such as GMs	Need based	**Fully**
24.NHPC	-	-	-	-	**-**
25.NPC	Contracts & purchase Boards Research mobilisatn Investment Boards	CMD, Ed –f,o,o,p, Additional Sec, DAE, JS Fin, DAE CMD, ED-f, JS-Fin, DAE, Addl,Sectry, DAE, CMD, ED-Fin, Dir-CF	Decision for award works such as engineering, purchase, service and consultancy contracts Decisions for mobilisation of funds for the Corporation Decision on deployment of surplus funds of MPCIL as per govt. guidelines	5-6 times a year	**fully**
26.NSC	Information technology	MD, GM-o,f.m.	Implementation within stipulated time	Once I 2 months	**Moderatel y**

27.NSICL	P& Administr.matters Master plan for construction Review hire purchase cases	CMD,Joint Sec., Industrialisat CMD,Joint Sec., Industrialisat CMD, Chief GM (SIDBI),Dir-fin.	Decide the policyu and implementation of personnel & admn. Matters Plan & review the constructn activity of the corpn. Review the written off cases under the hire purchase scheme of the corporation	Once in 2 months	**Fully**
28.ONGC	Executive Exploration & production Portfolio of the project monitoring Com. Executive purchase com. Share transfer	CMD and all Functional Directors CMD and all Functional Directors CMD, Dir-fin, Concerned functional Dirs. Dir-F,P,Tech	Inter business group decisions, participative decisions ion policy issues, investment decisions Exploration , production and project monitoring High value procurement decisions Share related matters	Need based	**Fully**
29.RCFL	Share transfer	Dir-f & CS	TRANSFER OF Company Shares	Once in a week	**Fully**
30.SCIL	Contracts com Transfer of shares	CMD,Dir-P& A, f, T /7 Os, L& PS, B& T CMD along with any if the 5 above funct. Dirs.	Approve items/projects of capital nature between 5-10 Crore Approve transfer of shares	Twice a month	**Fully**

31.SIIL	Promotion of executives Technology selection Purchase Contracts	CMD, selected BoDs	Promotion of various executives to HoD's level Select proper tech/suggest modifications Purchase of various equipment Decide upon contracts	Need based	**Moderatel y**
32.STC	Mgt. com	CMD, All whole time Dirs, Ed-Vigilance(invitee)	Sale/purchase above Rs.10 crore in each case, policy decisions, performance review.	Once in a week	**fully**
33.TCIL	-	-	-	-	**-**
34.VSNL	Share transfer	CMD ,all whole time Dirs	To approve share transfers	Twice a month	**Fully**
35.WPCS	-	-	-	-	**-**

Table-2.4 Personnel Growth (Q. 4.1 – Q. 4.3)

Name of the Enterprise	Do you have Managerial Succession Plan? Y/N	If yes, specify the succession process.	How much time it takes to appoint a successor?
1. ANTRIX	**-**	**-**	**-**
2. BCPL	**Y**	**-**	**6 mths.**
3. BDL	**N**	**-**	**-**
4. BEL	**Y**	No formal succession plan	**immediately**
5. BPCL	**Y**	Merit, experience and competency for vacancies arising out of either retirement, growth, new business, etc.	**Generally posts are not kept vacant.**
6. CMC	**Y**	Planned at least 6 months earlier, continuously developed the second line	**4 to 6 mths.**
7. CMPDL	**Y**	Vacancies likely in Sr.Managerial positions due to retirement, transfer to other company on promotion are reviewed at least one year in advance	**Not more than a week**
8. ECL	**N**	-	**5-6 mths**
9. GRSE	**Y**	One or more persons to succeed or identified and positioned one to	**1 – 2 years**

		two years before	
10.GSYL	**N**	-	**3-6 mths**
11.HAL	**Y**	Successors at each level are identified and transferred to take over at appropriate time	**2-3 mths.**
12.HFCL	**Y**	By induction	**Fast**
13.HLL	**Y**	By appointing as a under study to serving officer	**3 mths**
14.HPCL	**Y**	It is being done by detailed work out in the personnel department	**2-3 mths.**
15.HVOC	**Y**	Adhoc	**Depends on case to case**
16.ITI	**Y**	At board level appointment PESB plays the major role	**6-8 mths.**
17.MAPL	**Y**	Elevation on better performance and seniority for officers and managers of the company	**2-3 mths.**
18.MECL	**Y**	The vacancies are first filled in internally and if not available by open recruitment.	**If new 3-6 mths.** **If within company: immediate.**
19.MTNL	**N**	Does not apply	**About 3 months.**
20.MDL	**Y**	To ensure that no managerial gap develops at any level at any point of time	**3-6 mths**
21.MFL	**Y**	As per written down promotion policy	**Immediately**
22.NALCO	**Y**	-	**1-3**
23.NEPA	**Y**	Capability and achievements of the individual officer	**2-3 mths.**
24.NHPC	**Y**	By assessment and personnel planning	**Immediately**
25.NPC	**Y**	By involving the personnel in strategic planning activities of the management, job rotation / job enlargement	**Immediately**
26.NSC	**Y**	At once planning, field level problems, understanding, market intelligenstia	**2-3 mths**
27.NSICL	**Y**	Through training programmes	**-**
28.ONGC	**Y**	Continuous review byHRD	**Immeidately.**
29.RCFL	**Y**	Monitoring of	**Generally prior to**

		opportunities, imporvements in scills, upgradation of knowledge etc. is done scientifically.	**retirment.**
30.SCIL	**Y**	Interview by the BESB for Board level positions	**-**
31.SIIL	**Y**	Identifying and training of second line officers	**3-6 mths**
32.STC	**-**	-	**-**
33.TCIL	**Y**	On the basis of seniority, effectiveness, etc.	**Depends on case to case**
34.VSNL	**Y**	Promotion / recruitment	**Minimum required to complete the process**
35.WPCS	**N**	-	**3-4 mths**

Table-2.4.1 Management/ Executive Development Programmes (Q.4.4 – Q.4.7)

Name of the Enterprise	As a Board Member the No. of MDPs attended		Are they useful to you as a BOD Member ? Y/N	Kind of MDPs that should be offered in general	Kind of MDPs to be offered in particular	
	Previous	Present			Internal Directors	Official/Non-Official Director
1. ANTRIX	-	-	-	-	-	-
2. BCPL	-	-	-	Team work, long range plan	Team work, long range plan	-
3. BDL	-	2	Helped in strategic plannin g and KRAs	Advance Management Programmes	ITG Awareness programmes	ITG Awareness programmes
4. BEL		1	Quite useful	Environmental scanning for Scouting opportunities for business orientation, both local and international, leadership, strategic inputs with gross functional linkages	Environmenta l scanning for Scouting opportunities for business orientation, both local and international, leadership, strategic inputs with gross functional linkages	Environmental scanning for Scouting opportunities for business orientation, both local and international

5. BPCL	1	1	Moderately useful	Programme relating to charting the future business strategies. How to get the most out of the Board.	Both the above types of programmes, functional specialisation programmes.	Programme relating to charting the future business strategies. How to get the most out of the Board.
6. CMC	-	2-3	Very limited	Financial Restructuring, Retention Strategies / Market opportunities	Management / HRD / emerging market, Financial	Financial
7. CMPDL	-	2	Generally satisfactory	Corporate financial management, exposure to latest technologies	Corporate financial management, exposure to latest technologies	Exposure to industrial practices
8. ECL	-	-	-	Role and Powers of BoDs	Role and Powers of BoDs	Role and Powers of BoDs
9. GRSE	-	2	Good	-	-	-
10.GSYL	-	-	-	Corporate Management, Governance, Responsibilities and duties of directors under various statutes	All the directors to be given exposure to programme on corporate governance and role and responsibilities of directors.	-
11.HAL	-	-	-	Latest policy matters of the government, success stories of the other enterprises	Latest policy matters of the government, success stories of the other enterprises	Latest policy matters of the government, success stories of the other enterprises
12.HFCL	-	-	-	Latest policy matters of the Govt. Success stories of other enterprises	Latest policy matters of the Govt. Success stories of other enterprises	Latest policy matters of the Govt. Success stories of other enterprises

13.HLL	-	4	useful	Business process engineering, strategic planning. New developments in the field of business. International sourcing of funds	Marketing-international Strategic framework in planning and decision making	Health care products – its marketing/new projects development in provisioning of health care facilities Doing business in competitive environment
14.HPCL	Three	-	Very useful	The programmes offering insight into the discipline other than his own, to appreciate others' view point and to contribute as a member of a team	Technical & operational programmes to finance & personnel directors	A general nuances of the particular industry I which they are on the Boards.
15.HVOC	-	-	-	-	Of common concern to all PSUs	-
16.ITI	-	-	-	Corporate governance in a globalised economy	Corporate governance in a globalised economy	Corporate governance in a globalised economy
17.MAPL	-	6	Has been extremely useful	TQM, inter personal relationship	TQM, inter personal relationship	TQM, inter personal relationship
18.MECL	-	-	-	Advance management programmes	Advance management programmes	General overview of industry I India and abroad
19.MTNL	Many	None	Courses conducted by ALTTC are very high quality and they have been very useful for me.	Corporate finance mg. Organisational restructuring	Human resources management Courses on the latest technological advancement	Customer care and customer relations General courses on telecom development

20.MDL	-	-	-	Mgt. programmes which aim at better appreciation and understanding of both the company's business and technical issues for resolution of problems Programmes that help in enhancing productivity and in continuous quality improvement	Programmes that aim at safety awareness and loss prevention	General financial policies, company law, production planning & control
21.MFL	-	-	-	Business re-engineering for public sector enterprises New economic policy and the changing role of the Board of directors	Strategy & change mgt. TQM	-
22.NALCO	-	6	Very useful	Programmes related to the industry, present position, future scenario. International developments in the industry	Programmes relating to particular functional area. Programmes to help appreciation of financial data present	Programmes to help appreciation of financial data present Special programmes on industry in which company is operating, position of the company
23.NEPA	Well over 25	-	Quite useful	Industry oriented with practical and need based programmes Sharpening of mgt. skills in different spheres of activities	Joint Venture negotiations with international partners Fund sourcing	Industry oriented with practical and need based programmes Sharpening of mgt. skills in different spheres of activities
24.NHPC	-	-	-	Financial Management information systems & monitoring	Financial Management information systems & monitoring	Financial Management information systems & monitoring

25.NPC	4	2	Very useful	Self awareness & general mgt. Strategies	Project planning & execution MDPs/Financ ial mgt.	Relevance of nuclear power Problems & perspectives in nuclear power development
26.NSC	5	2	More interacti on, more exposur e. Better understa nding capacity Active involve ment in transfer of technol ogy	Market oriented Consumer satisfaction	Production/ R & D/mgt. Marketing intelligentia	Advance technology understanding Consumer requirements /problems
27.NSICL	-	-	-	The programmes should cover the future outlook and economic policies of the govt. vis-à-vis small scale sector, so that they are able to plan the corporation's strategy	Professional ./advanced training in India and Abroad	-
28.ONGC	7	6	Quite useful	Management principles and policies Strategic planning	Project panning & control Human resources management Corporate policy & strategic mgt.	Industry orientation Business practices and procedures
29.RCFL	-	-	-	-	-	-
30.SCIL	-	-	-	Time mgt., finance mgt. for technical personnel, personnel mgt. and human resources mgt. for all the Board level members General mgt. course designed by ASCI or the IIMs	Time mgt. Personnel mgt. and HRM	A course designed to give various inputs on the key business functions of the company

31.SIIL	several	None	Extremely useful; managerial skills thus acquired can be applied directly for improving change I the work culture of the organisation	Training programes should aim at giving an overview on changing economic and business environment both at the domestic and global fronts.	Rules & regulations related to liberalisation / globalisation policies International marketing Govt. policies and programmes with specific relation to public enterprises specially for non-official directors	Rules & regulations related to liberalisation / globalisation policies International marketing Govt. policies and programmes with specific relation to public enterprises specially for non-official directors
32.STC	2	-	Quite useful	Programmes on new international marketing techniques, new trading opportunities, trading blocks and groupings and impact of new technologies, particularly information technology on international trading practices	Programmes on new international marketing techniques, new trading opportunities, trading blocks and groupings and impact of new technologies, particularly information technology on international trading practices	Programmes on new international marketing techniques, new trading opportunities, trading blocks and groupings and impact of new technologies, particularly information technology on international trading practices
33.TCIL	1	2	Fairly useful	Strategic planning	Marketing for non-marketing directors Finance for non-finance directors	-
34.VSNL	-	-	-	-	-	-

35.WPCS	-	1	Useful in conducting Board level functions	Changes of economic environment and it implication on consultancy services Board level planning for implementation of company vision and growth of infrastructure to cope up with the business growth strategies	Reorganise/ restructure the organisation for higher productivity , efficient performance and upgradation of skills such that with the increased business growth the manpower input shall be through internal resource generation	Sharing responsibility at board level for business development strategies monitoring and reliable quality output Overview for smooth functioning of the company and growth strategies for JVs and diversification in specified potential growth areas

Table-2.5 PESB (Q.5.1 – Q.5.5)

Name of the Enterprise	To what extent the PESB has been able to function successfully as a Top Personnel Agency for PEs	Is restructuring of PESB required to make it more functional?	**To what extent PESB** Members have contributed in selection of Heads of Department	To what extent is the composition of 2nd level Committees balanced? G/S/N/L/Least	Any suggestions for change in the 2nd level Committee ?
1. ANTRIX	-	-	**-**	-	-
2. BCPL	Great	N	**Significant**	Moderate	N
3. BDL	Moderate	Y	**Least**	Least	N
4. BEL	Significant	N	**Significant**	Significant	N
5. BPCL	Significant	Y	**Significant**	-	-
6. CMC	Significant	Y	**Moderate**	Moderate	Y
7. CMPDL	Significant	N	**Significant**	Significant	N
8. ECL	Great	N	**Great**	Great	N

9. GRSE	Significant	Y	**Moderate**	Moderate	Y
10.GSYL	Moderate	Y	**Moderate**	Less	-
11.HAL	Moderate	Y	**Moderate**	Moderate	N
12.HFCL	Moderate	Y	**Moderate**	Moderate	Y
13.HLL	Significant	Y	**Moderate**	Moderate	N
14.HPCL	Moderate	Y	**Moderate**	Moderate	Y
15.HVOC	Great	N	**Great**	Significant	N
16.ITI	Moderate	Y	**Significant**	Moderate	N
17.MAPL	Moderate	Y	**Significant**	Moderate	Y
18.MECL	Great	Y	**Great**	-	-
19.MTNL	Great	Y	**-**	-	-
20.MDL	Significant	Y	**Significant**	Least	N
21.MFL	Significant	Y	**-**	-	-
22.NALCO	Great	Y	**Great**	Great	N
23.NEPA	Significant	Y	**Significant**	Moderate	Y
24.NHPC	Significant	Y	**Moderate**	Significant	N
25.NPC	-	-	**-**	Significant	N
26.NSC	Significant	Y	**Moderate**	Moderate	N
27.NSICL	Significant	N	**Significant**	Significant	N
28.ONGC	Significant	Y	**Significant**	Moderate	Y
29.RCFL	Significant	-	**-**	-	-
30.SCIL	Significant	N	**Moderate**	Moderate	N
31.SIIL	Moderate	N	**Moderate**	-	-
32.STC	Great	N	**Great**	Significant	N
33.TCIL	Moderate	Y	**Moderate**	-	-
34.VSNL	-	-	**-**	-	-
35.WPCS	Significant	N	Significant	Significant	N

Table-2.5.1 PESB Role and Set Up (Q.5.6 – Q.5.8)

Name of the Enterprise	Given the PE Reforms/economic scenario, is any change required in the role/set up of PESB in selection of the PE Chiefs & Board Members Y/N	If yes, expand	Should PESB be made an autonomous body and given full powers?	Can BoDs elect their Chiefs themselves? Y/N	Suggestions regarding role, composition and functions of the PESB in present context
1. ANTRIX	-	-	-	-	-
2. BCPL	N	-	N	N	-
3. BDL	Y	In the selection of Board members more autonomy be given to PSU viz., Selection Committee should have members from PSU. The CMD, with his experience of the Unit should have a say in selection of Board Members as well as for CEO, the QR to be generated by the Unit concerned and adequate representation of PE in the Selection Committee	Y	Y	At present members are drawn from Administrative Services. Instead members may be drawn from PSUs, Industry (Private) – Experts and Armed forces At present , there is no interaction between PESB and PE. Thus the selection of the candidate made in isolation may not match the expectation of the Industry. This can be avoided by closer interaction
4. BEL	N	-	N	N	Recruit suitable incumbents for the post of CMD, Directors of PSEs.
5. BPCL	Y	Shift to market driven economies, greater competition within not only indigenous	Y	N	Besides the present members, PESB could also have a panel of retired bureaucrats

		Industry but also from imports, emphasis on cost, quality, speed and market responsiveness , disinvestment in equity of Public Sectors and Navaratna and Miniratna status			and some very eminent functional experts such as from HR, Finance, etc., who could also be on the selection panel.
6. CMC	Y	As problems of each PSU are different there should be members who are knowledgeable in these areas , procedures should be simplified and should be single window	Y	N	-
7. CMPDL	N	-	Y	N	In general, the members must be persons wit high level of integrity and character, who do not allow themselves to be influenced by any external considerations (including political pressures)
8. ECL	N	-	Y	N	The delay in the appointment of full time directors is mainly by administrative ministry due to lengthy procedure. Company should be allowed to make direct request to

					PESB for the recruitment and PESB should be made responsible for obtaining all the govt. approvals
9. GRSE	Y	Inclusion of professionals from the concerned industry and SCOPE	N	N	Assist the Govt. in selecting the Board Level appointees to the PESB
10.GSYL	Y	The views of the applicants so brought I by the PESB should be given due weightage in the selection	N	N	-
11.HAL	Y	PESB should be able to fill up the vacant posts of Directors/Chairman at the earliest. They should not depend o the Administrative Ministry to indicate the selection process instead maintain their own databank & utilise it for filing up the posts	Y	N	PESB recommendations should be binding on the Administrative Ministry
12.HFCL	Y	PESB should function as an independent body without any Govt. control	Y	N	The Public Sector functioning depends on the calibre and competence of the person selected by the PESB, and therefore the role of PESB is of vital importance to the functioning of the PSUs –

					in fact to a great extent of the economy of the country
13.HLL	Y	The PESB selection should be final; should have a panel of selected people to be appointed against vacancies notifies I advance. The Board should consist of experts from PSUs only	Y	N	Board shall consist of experts from the practicing Manager s from PSUs It must have non IAS members; members should have a period of 5 years; up to Board level, the selection need not be concurred by the Ministry. ; should maintain a bank of probable candidates; time of selection should be cut short.
14.HPCL	N	-	N	N	PESB, I my opinion has no role in the present context and appointment of Directors should be taken care of by ACC through Administrative Machinery
15.HVOC	N	-	N	N	Present set up is O.K.
16.ITI	Y	PESB should be more autonomous; if need be representatives from various ministries \can be co-opted so that CCA clearance does not take more	Y	N	In a liberalised global economy, PESB may have the Members drawn from various disciplines – Administration , Finance,

		than one month; there should be an official provision to have overlap of 3 months between old and new incumbents.			Technocrats, Marketing Specialist, economist, leading advocates etc.
17.MAPL	Y	Merit cum fitness should be thee criteria rather than an other consideration	Y	N	To develop and update the data-bank., call applications for enriching the data bank, commence process of selecting the person at least a year before the position to become vacant, complete the process of selection at least three months before it is to be manned, formulate a well in–built system and procedure for better administration of PESB and timely providing of personnel to achieve better economic growth of the PSEs.
18.MECL	Y	The experienced and successful Managers of Private Sectors/ NGOs should be called on deputation without decrease in their salary that	Y	N	PESB should also induct outside experts; it should carefully watch the performance of PSE Chiefs so that they can be sure of proper

		they get in Private Sector, so that good talent can be attracted			selection made and may change the entries for next Chief if so desired; PESB must have data bank of all posts and the vacancy should be immediately filled up by quick selection and appointment.
19.MTNL	Y	PESB should take advance action to ensure a proper succession plan for the public enterprises. It should have a monitoring mechanism .	Y	N	-
20.MDL	Y	Supportive and advisory role – a service provider to all PSUs	Y	Y	-
21.MFL	N	-	Y	Y	-
22.NALCO	Y	Senior most public sector under taking Chief executive should also be a Member of the PESB	Y	N	Senior most public sector under taking Chief executive should also be a Member of the PESB
23.NEPA	Y	PESB has to function to meet the call of the market economy in choice of candidates and hence they themselves are to be adequately practical and drawn from Private Sector and not from Govt. Service.	Y	N	Representative s from all major discipline capable of quick appraisal of candidates which would be from at least 15 to 20 years solid experience I the relevant field is a must; decisions are to be on a 2/3

		The entire approach of the PESB should be business oriented.			majority basis; Monitoring of PSUs where their appointees are involved on annual basis could be another function.
24.NHPC	Y	PESB should have young professionals from Govt. and private sector as members and the composition of PESB should vary according to type of organisations to have the members with requisite knowledge and experience to assess the candidates.	Y	N	-
25.NPC	-	The PESB can maintain a panel of suitable experts/professionals from various disciplines including Management Consultancy etc., which could be updated from time to time. From such a panel of highly experienced/qualified professionals in different fields, suitable professionals/experts could be identified by different Ministries/PSU	-	-	-

		s for selection of Board Members.			
26.NSC	Y	Persons having technical experience should be preferred more to understand requirement and market.	Y	N	Along with bureaucrats, technocrats should be given equal importance.
27.NSICL	N	-	N	N	PESB should be an independent institution free from Govt. control, having eminent Members.
28.ONGC	Y	-	Y	N	PESB should include industry and management experts with full powers; autonomous body; time frame of selection is important; emphasis on industry data bank
29.RCFL	Y	-	Y	N	-
30.SCIL	N	-	Y	N	The present composition & role of PESB to be enhanced by inducting more industry specific professionals ; time frame for selecting candidates to be fixed in a manner which ensures least vacant time for a post
31.SIIL	Y	To assist the CMD of any organisation in the selection process	Y	N	Full autonomy; appointment of Chief of PESB to be made by President of India; CMD

					should have veto powers; negative effects of Administrative Ministry should be taken care off; data base should be improved
32.STC	Y	PESB should be made autonomous with full powers of selection	Y	N	-
33.TCIL	-	-	Y	Y	-
34.VSNL	-	-	-	-	-
35.WPCS	N	-	N	N	-

Section-III New economic Policy and the Changing Role of BoDs

Table-3.1 Impact of PE Reforms on PEs (Q.1.1)

Name of the Enterprise	Have the PE Reforms had any impact on the overall performance? Y/N	If yes, specify important parameters	Specify your enterprise's performance based on these parameters
1. ANTRIX	**N**	**-**	**-**
2. BCPL	**N**	**-**	**-**
3. BDL	**Y**	Management , finance, Admn, Personnel, HRD	**Satisfactory**
4. BEL	**N**	**-**	**-**
5. BPCL	**N**	**-**	**-**
6. CMC	**N**	**-**	**-**
7. CMPDL	**N**	**-**	**-**
8. ECL	**N**	**-**	**-**
9. GRSE	**N**	**-**	**-**
10.GSYL	**-**	**-**	**-**
11.HAL	**Y**	Entry I to international markets; diversification into civil aviation sector	Increase in sales from Rs. 1024.41 crore in 1991-92 to Rs.1770.21 crore in 1996-97. Profits have gone up ; exports have risen
12.HFCL	**N**	-	-
13.HLL	**N**	-	-
14.HPCL	**N**	-	-
15.HVOC	**N**	-	-
16.ITI	**Y**	Effective receivables & materials mgt.; customer focus; down sizing; leading edge technologies; capacity utilisation; development	Time bound programme of payments agreed with DOT, better inventory mgt. by units banking on each others surplus better distribution of

		of competitive edge	production ;special lien schemes, VRS; sub-contracts between units, reducing outsourcing
17.MAPL	**-**	-	-
18.MECL	**Y**	Commercialisation; diversification; customer orientation; professionalisation; long term planning for growth	Good in respect of items mentioned.
19.MTNL	**Y**	Fully independent of the Board to take all investment decisions; non-interface by the Ministry /Department in the day-to-day running of the Company; independence to formulate its own corporate plans; independence to evolve human resources initiative	With the grant of Navaratna status MTNL will be having the powers for taking its own investment decisions. However, in respect of formulating specialised plans for human resources initiative MTNL can have them only after the deemed deputation status of its employees ends.
20.MDL	**N**	-	-
21.MFL	**N**	-	-
22.NALCO	**N**	-	-
23.NEPA	**Y**	Modernisation scheme of machines; raw material other than Bamboo/salai/wood pulp ; required capacity power generation; subsidiary industries development; utilisation of Man Power	To reduce cost of production a par; to produce multi-Products; Motivation of Ancillary Units
24.NHPC	**-**	-	-
25.NPC	**Y**	Operational performance of the stations; project mgt. & operation of projects within schedule; availability of long term credit at reasonable interest; timely notification of tariff proposals & timely realisation of dues; having a team of efficient professionals who have to be regularly exposed to training for improving their professional skills	Plant load factor has improved to 70% as against 47% in 1994-95; action has been taken for proper planning and timely execution of the projects, as a consequence the ongoing projects are expected to be complete next year; availability of long term credit at reasonable rate is under discussion with the Govt./financial institution etc.

26.NSC	**Y**	Profit concept; fixation of target based on ground realities; more concentration for innovation; professional approach	Profit/loss concept at sub-unit level ; more powers to regional Managers i.e., decentralisation; improvement in crop mix from 55:45 to 65:35 (high value : low value); hybrid concentrations; more exports
27.NSICL	**Y**	Greater autonomy to shed weight of dead wood of extra manpower, create vacancies, employ professionals; freedom to operate schemes; larger spectrum available to procure and manage funds & terms and conditions	Manpower has been reduced by about 25% inspite of induction of professionals; VRS has given cushion to absorb the rising wage bills as a result of implementation of the Vth Pay Commission Recommendations; turnover of the enterprise has risen 5-6 times in 1996-97 from what it was in 1992-93.y
28.ONGC	**Y**	Improving reserve-replacement ratio, return on capital employed, finding and lifting cost and reduction in project life cycle time; financial autonomy; devolution of hierarchial structure and delegation of empowerment ; arms length distance from govt. and parliamentary bodies; innovative thinking and onthustling the competition; commercial prudence in decision making and risk taking for growth; man power intensity0exit policy for weeding out fat.	The autonomy aspect under Navaratna package consequent to public sector reforms is yet to be implemented in full; several structural changes have been implemented
29.RCFL	**Y**	Cost and availability of funds for long term and working capital requirements; Market growth –Qty-wise and Area of operations; Expansions / Creations of new capabilities, introduction of new / modified products in the market; cost of	Very good performance

		production; training & development of manpower	
30.SCIL	**-**	-	-
31.SIIL	**N**	-	-
32.STC	**Y**	Growth in canalised trade; Profit Before tax	Good performance
33.TCIL	**N**	-	-
34.VSNL	**N**	-	-
35.WPCS	**N**	**-**	**-**

Table-3.1.1 Change in the Style of Management (Q.1.2)

Name of the Enterprise	Have PE reforms led to the changes in the Management Style Y/N	If yes, specify the extent of change for the following orientation:					
		Bureaucratic	Commercial	Market	Administration	Management	Professional
1. ANTRIX	Y	M	S	S	M	S	S
2. BCPL	Y	S	C	C	M	S	M
3. BDL	-	-	-	-	-	-	-
4. BEL	N	-	-	-	-	-	-
5. BPCL	N	-	-	-	-	-	-
6. CMC	Y	Sl	S	S	M	Sl	M
7. CMPDL	N	-	-	-	-	-	-
8. ECL	N	-	-	-	-	-	-
9. GRSE	Y	Sl	S	M	M	M	M
10.GSYL	-	-	-	-	-	-	-
11.HAL	Y	M	S	S	M	S	S
12.HFCL	N	-	-	-	-	-	-
13.HLL	N	-	-	-	-	-	-
14.HPCL	N	-	-	-	-	-	-
15.HVOC	N	-	-	-	-	-	-
16.ITI	Y	S	S	C	S	S	S
17.MAPL	N	-	-	-	-	-	-
18.MECL	Y	S	C	S	-	C	C
19.MTNL	-	-	-	-	-	-	-
20.MDL	N	-	-	-	-	-	-
21.MFL	N	-	-	-	-	-	-
22.NALCO	Y	C	C	S	S	S	S
23.NEPA	Y	S	S	S	S	S	S
24.NHPC	N	-	-	-	-	-	-
25.NPC	Y	S	S	S	C	S	S
26.NSC	Y	S	S	S	S	M	M
27.NSICL	Y	S	S	-	-	-	-
28.ONGC	Y	M	Sl	Sl	M	S	S
29.RCFL	Y	Sl	M	M	Sl	Sl	Sl
30.SCIL	-	-	-	-	-	-	-
31.SIIL	N	-	-	-	-	-	-
32.STC	Y	Sl	M	M	Sl	Sl	Sl
33.TCIL	N	-	-	-	-	-	-
34.VSNL	N	-	-	-	-	-	-
35.WPCS	-	-	-	-	-	-	-

Table-3.1.2 a Change in Working Systems (Q.1.3)

Name of the Enterprise	Changes effected in the following:						
	Recruitment	Terms/Conditions of services.	Interface relationship with Govt.	Accountability	Budgeting	Auditing	Marketing policies with regard to autonomy and pricing
1. ANTRIX	-	-	-	-	-	-	Full autonomy given to Exec. Dir./Mgr. For Mkting. Policies.
2. BCPL	-	-	-	-	-	-	-
3. BDL	-	-	-	-	-	-	-
4. BEL	-	-	Only as per reporting requirements for a MoU signing company	Vigil strengthened ; ensuring regular filing of returns by Executives.	Complete revamp of budgeting process	Internal Audit Manual amended to meet statutory requirements & improve procedures	Separate groups for international & domestic marketing formed
5. BPCL	Individual group discussions in selection	Long term settlement for bargainable employees	-	-	-	-	Prices altered frequently on free trade products only
6. CMC	Special recruitment drive for SC, ST, OBC; more campus selections	Pay revision implementation contract assignments for highly specialised Govt. jobs	Multi-point interface creating problem	Strategic business unit formation on profit centres improved performance	Tightening of expenditure budget	Streamlining internal audit	More freedom given to SBUs
7. CMPDL	Recruitment stopped	Wage revision done & pension in the offing	-	-	-	-	-
8. ECL	Once in	Once in 5	-	-	-	-	Full

	5 yrs.	yrs.					autonomy
9. GRSE	Need based rationalsation of manpower; VRS; no. of trades reduced from 234 to 43	Tightening of discipline rules; improvement in general working conditions	-	Profit centre concept introduced in 2 yrs.	Divisional budgeting introduced with emphasis on value addition per employee	Emphasis on performance audit & mgt. audit	Progressive autonomy being given to various units to manage business on profit centre concept
10.GSYL	-	-	-	-	-	-	-
11.HAL	Need based	Technicians, engineers recruited on contract basis	MoU being entered into with Govt. ; rated excellent in last 6 yrs.	Performance review vis-a-vis MoU targets	Revenue budget replaced by MoU concept	-	Autonomy
12.HFCL	Relaxation in recruitment norms to attract proper talent	Nil	Being a sick company and having been promoted by the Govt., we are having close relationship with Govt.	Accountability is more sever now at all levels and units and offices of the Company.	Is mostly dictative by the quantum of funds available from the Govt.	No	Our products are marketed as per the guidelines and prices fixed by the Govt.
13.HLL	Campus interview / Training scheme	Quicker promotion depending on results are introduced	-	It is fixed unit wise	Units are empowered to act according to the budget approved	Experts from outside are being engaged	Autonomy is given sufficiently
14.HPCL	-	-	-	-	-	-	-
15.HVOC	-	-	-	-	-	-	-
16.ITI	General recruitment curtailed	Remuneration as per Govt. directives; career plan for executives ; better incentive	ITI an MoU very good for 97.	Unit heads Accounts for al operations of the units and profits of the units	Capital budget finalised	Concept of multi-discipline auditors	Changes in bidding strategy with marketing intelligence

		schemes					
17.MAPL	-	-	-	Accountability of every Dept. specified	Budgeting exercise carried out year	Internal & external auditing	Frequently changed to be competitive.
18.MECL	- Time bound promotion - Career Growth Scheme - Open recruitment of Professionals	- Change from CDA to IDA pattern - Probation after promotion for one year - Change of designation to managers	The Govt. financial support is reducing but support in kind is increasing to make it market oriented	Increased at all levels. Every employee has clear role in organisation.	Being done in details and controls introduced and regularly monitored	Strengthen by several audit teams positioned in field	Dynamic and changing on case to case basis – marginal pricing being done in competitive cases.
19.MTNL	-	-	-	-	-	-	-
20.MDL	Reservation for Ocs provided, as directed by the Govt.	Nil	Nil	Project Managers have been appointed for each project, to be made more accountable	Nil	An Internal Audit Manual has been brought about	The Corporate Divn. Of the Company has been equipped with Business Development and Marketing Group for forward marketing of diversified products and for export marketing.
21.MFL	Balanced objective view of	No significant changes	No significant changes.	No significant change	No significant changes	No significant changes	Are reviewed regularly

	promotion from inside vis-à-vis external recruitment is taken		MFL maintains very close interface relationship with Government on all important issues.				to meet changes in immediate business environment and changes implemented with approval of the Board.
22.NALCO	Specifications have been more clearly defined and process of advance planning for future vacancies initiated. This has helped reduce the lead time in filling up of the vacancies and induction of Man-power of desired quality.	-	-No Change-	As per MoU signed with Government, internal MoUs at Dept. level introduced to focus on performance targets and objectives.	Monitoring of Budget is computerised laying emphasis on production related items	Internal audit is conducted Departmentally since inception. Internal audit cells comprising of Executives at appropriate levels are functioning at Sites & Corporate office. GM(F) is conducting and supervising the work. It is being strengthened from time to time keeping the volume & size of the organisation.	Product prices have been linked to London Metal Exchange.
23.NEPA	Qualified Professionals inducted	Partly amended to attract meritorious personnel	Improved greatly	Gradual	Importance recognised	Gradual	Vast changes done.
24.NHPC	-	-	-	-	-	-	-

25.NPC	The recruitment / training is being streamlined to expedite the recruitment process. Training is being organised to be imparted in all areas of management.	Improvement in terms & conditions of service except the pay scale which are as applicable in the Govt.	Regular interaction with the Govt. has enabled the organisation to improve understanding of the problems and perspectives.	The employees have been made accountable by proper delegation of powers & specification of duties & responsibilities.	There has been a considerable improvement brought out in Budgeting and ensuring proper monitoring and control over the utilisation of budget.	The audit activities are being managed by a firm of C.A. as Internal Auditors with a small team of officers to coordinate. It is envisaged to enlarge the scope of Internal Auditors & post suitable CA's to look after the aspects.	The tarrif is notified by the Govt. in consultation with the Central Electricity Authority. There are delays in the notification of tariff which should be with tariff commission in Power Sector rather than with CEA.
26.NSC	-	Improved confidence among gross root level area managers increased	Improved when compared to earlier period. More improvement required.	More accountable than previous period. Still to improve.	Profit based – commercial out look. Professional approach increased.	To be improved – needs improvement.	Quick decision making; Aggressive marketing; professional approach
27.NSICL	More professionals being inducted, Management Trainees recruited being trained on job to be able to shoulder responsibility.	- Faster upward movement provided to motivate work force - Better results are awarded by many methods like cash resard	Healthy and cordial to the advantage of the enterprise.	Powers delegated at the appropriate level for better and efficient functioning. By this method it is easier to identify the point of accountability.	Continuous monitoring and review is resulting in better budgetary control.	No change	Sufficient autonomy available for marketing and pricing.

		, faster promotions and foreign tours					
28.ONGC	New Recruitment and Promotion policy. Capus interview for choosing the best talent from renowned institution for selected discipline.	No change as yet.	Status quo as on date. The purchase decisions have, however, been left almost entirely to the company since last one year.	Introduction of the concept of Asset Managers on a pilot basis. Accountability to share holders movement of share prices listed in Stock Exchanges.	Output oriented budgeting. Zero Base instead of incremental approach More power down the line w.r.t. utilisation.	Streamlining system. Multidisciplinary Increasing emphasis on technical audit.	Policy guidelines are being formulated in line with phase wise dismantling of APM.
29.RCFL	No change	No change	-	-	-	-	-
30.SCIL	-	-	-	-	-	-	-
31.SIIL	-	-	Responsibility of various officers at different levels have changed	-	-	-	-
32.STC	-	-	-	-	-	-	All items have been decanalised. STC's name has been included as one of the canalising agencies for urea import.
33.TCIL	-	-	-	-	-	-	-
34.VSNL	-	-	-	-	-	-	-
35.WPCS	-	-	-	-	-	-	-

Table-3.1.2.b Change in the Working Procedures (Q.1.3)

Name of the Enterprise	Changes effected in the following:						
	Delegation of powers	Decentralisation of powers	Purchase of material	New product development	Diversification	Sources of working capital	MIS
1. ANTRIX	-	-	-	This is a continuous process.	Opportunities are examined from time to time.	-	Required changes in MIS done to suit company's requirements.
2. BCPL	-	Full autonomy to unit head	Full powers to MD and DF from Rs.25 lakhs.	Full power	-	-	-
3. BDL	-	All centres have been given more autonomy	-	BDL is entering into the area of night vision system	Diversifying into under water weapon systems.	-	-
4. BEL	Sub delegation of powers scrutinised and amended.	Powers have been delegated by the Board to CMD, Directors, GMs, Unit heads.	Purchase procedure renewed.	Changes affected in R&D organisation.	-	-	MRP II is being implemented in the company.
5. BPCL	Done from time to time.	As per need	-	-	-	-	Virtual information system in refinery through LAN.
6. CMC	More delegation to GMs in the region.	Powers decentralised to SBU chiefs and regional SBU chiefs.	Decentralisation to regions through Purchase Committee projects with positive cash flows gets more freedom.	Through outside advisory committees, committees from SBUs.	Need based	Reduced borrowing from Govt.	Planning to implement Intra net based information sharing.
7. CMPDL	Enlarge for purchases	-	Powers enhanced	-	-	-	-
8. ECL	-	-	As per Govt. purchase procedure	Full autonomy	Full autonomy	Self sustaining	No MIS division.

9. GRSE	Units which are profit making have been given adequate powers.	Units which are profit making have been given adequate powers.	Emphasis is being given on cost benefit, timely deliveries, quality of product and transparency in dealing.	R&D efforts made in three new products.	Under consideration at Board level	-	MIS introduced in a big way.
10.GSYL	-	-	-	-	-	-	-
11.HAL	Being affected to decentralise certain powers down the line.	Being affected.	Purchase procedure simplified to meet international competition.	New products being developed are – ALH, NJT, Lancer, LCA	Projects – 15 seater Air Craft Heavy civil air craft maintenance, cargo handling, gas turbine, etc.	Internal resources, bonds issue and cash credit facilities.	-
12.HFCL	Enhancement in the powers of unit GMs.	Authority has been further decentralised through Area Managers	Guidelines for procurement of materials have been revised.	Production of Bio Fertilisers has been introduced	-	Govt. funds.	Improvements in MIS.
13.HLL	Amended as per the changing needs.	Amended as per the changing needs.	Decentralised	-	Projects division has been formed	-	Integrated MIS introduced
14.HPCL	-	-	-	New product such as S S Maplitho & copier paper were introduced	Only product segment diversification.	Internal sources and through Commercial Banks.	Improvement made through upgradation of IT.
15.HVOC	-	-	-	-	-	-	-
16.ITI	Delegation of Administrative and Financial powers to Head of Marketing; Full powers to Unit Heads related to production.	Unit heads have full powers under changed unit wise organisation with only major policy making retained with corporate.	Production units have been empowered to formulate and implement innovative procedures.	Type approval obtained from MARR; type approval obtained from Pairgain, ACT.	Value added services, net work management for local exchanges, strategic component manufacture.	Advances form DOT, Roll over of LC	ERP being introduced, production activities computerised.
17.MAPL	Decentralisation of working powers with every HOD.	-	Based on tender quotations and on L-1 basis.	2 to 3 new products planned every year.	Not possible due to BIFR / Sick unit.	No working capital available since 15 years.	MIS used extensively.

18.MECL	More and clear delegations given to Line Managers and Sr. officers.	More powers to project level for spot decision.	Sufficient powers to project.	New leases with company for commercial mining, computerised data package, Remote Sensing Packages.	Geo Physics, Remote Sensing, Environment Studies, Commercial Mining, Consultancy.	Cash credit from Bank enhanced, advance payment from clients.	Computerised, simplified, monitored regularly, daily cash flow statement.
19.MTNL	-	-	-	-	-	-	-
20.MDL	Certain powers have been delegated by the BoDs to the CMD in terms of AoA. CMD in turn has sub delegated powers to officers at various levels.						
21.MFL	-	-	Revision under progress.	-	Options being evaluated as part of long term strategy.	Liquidity crunch being faced form time to time.	Continuous upgradations for making the system online being done.
22.NALCO	Comprehensive and detailed delegation given keeping the needs of the organisation.	Powers have been decentralised to a very great extent, for quicker decision making process.	Changes effected to improve procurement efficiency, speed up computerisation and bring uniformity in working.	Special Grade Alumina Pilot Project successfully completed.	Nalco is actively considering down stream projects such as stripcaster, Aluminum Wheel, etc. It is also participating in the equity of downstream projects.	Nalco does not depend on outside sources for working capital requirement.	Computerised the MIS. Established a Reuter connection to ascertain latest Price Movemetns of our Product Internationally.
23.NEPA	Need based	Need based	Need based	As per market needs	For company's survival	As per bank limitations	Make effective to suit changed needs.
24.NHPC	-	-	-	-	-	-	-
25.NPC	Significant delegation given	With delegation decentralisation of power has been effected.	Centralised system retained for major equipment.	-	Envisaged for technological advancement	Realisation of dues from SEBs, cash credit facility.	Modified suitably.
26.NSC	More autonomy	Improved	Cost reduction achieved.	-	Concentration on experts, high value crops share increased 30-40%	Needs improvement.	Tremendous improvement.

27.NSICL	Powers have been delegated down the line.	Power has been decentralised at region and branch levels.	-	-	-	-	-
28.ONGC	More power to business centres and functional executives, Asset Manager.	Enhanced power to business centres including inter-hirarchial powers, power to interchange asset deployment in business centres.	Changes effected from time to time.	Kerosene Recovery Unit – ARN, Paraxylene project under approval.	Formation of independent joint venture group under all executive director.	Internal financing	Continuous updating of MIS.
29.RCFL	Substantial changes effected in the powers of CMD.	Study is in progress.	Powers have been fully delegated.	-	New division has been created – Corporate business development division – to identify scope for having expansions, JVs, tie ups.	-	Hardware and software is in the process of upgradation.
30.SCIL	-	-	-	-	-	-	-
31.SIIL	Extra powers being delegated to officers	Powers being decentralised	-	-	Plans to go in for expansion and diversificatio n	-	Improved.
32.STC	Greater powers to directors / branches	-	-	-	Diversified into import of gold and urea	Not surplus (cash rich company)	Computerisa tion being gradually extended.
33.TCIL	-	-	Purchase manual prepared to stream line proposal	-	-	-	-
34.VSNL	-	-	-	-	-	-	-
35.WPCS	-	-	-	-	-	-	-

Table-3.2 PE Reforms (Q.2.1-2.5)

Name of the Enterprise	Any Social Objectives as per AoA?	What are the social objectives listed in the mission statement/ statement of objective in MoU & Govt.	What is the weightage given to social objectives & MoU?	Nature of priority of profit vis-à-vis social objectives	To what extent your enterprise is managed on commercial lines like the private sector.
1. ANTRIX	-	-	-	Equal	M
2. BCPL	Y	No MoU	-	More- Profit	S
3. BDL	-	-	-	Equal	M
4. BEL	-	-	-	More-Profit	S
5. BPCL	-	Promote ecology, environmental upgradation and national heritage	Nil	More-Profit	M
6. CMC	Y	Reservation of posts, customer care service, employee satisfaction	About 5%	More-Profit	S
7. CMPDL	-	-	-	More-Profit	S
8. ECL	-	-	-	Equal	F
9. GRSE	-	-	-	More-Profit	M
10.GSYL	-	-	-	-	-
11.HAL	-	-	-	Equal	M
12.HFCL	Y	Welfare of employees	-	Equal	S
13.HLL	Y	To be the leader in the field of contraceptive & Health care products	-	Equal	M
14.HPCL	-	-	Due weightage; most in the case of environment	More-Profit	M
15.HVOC	-	-	-	Equal	M
16.ITI	Welfare of the employees	As per guidelines issued by DPE	-	Equal	M
17.MAPL	-	-	-	More-Profit	F
18.MECL	Y	-	-	More-Profit	S
19.MTNL	Y	-	-	More-Profit	S
20.MDL	-	-	-	More-Social	S
21.MFL	-	Mission is to produce and market	-	More-Profit	M

		fertilisers, Bio-fertilisers and market Agro-chemicals/ other eco friendly agro inputs efficiently and economically and serve the farmers and other customers with quality products and services to the benefit of the national economy.			
22.NALCO	Y	-	-	More-Profit	F
23.NEPA	Y	-	-	More-Profit	S
24.NHPC	-	-	-	More-Profit	F
25.NPC	-	-	-	More-Profit	S
26.NSC	Yes. In volume 60% production of cereal seeds, Rice and wheat which are high volume low value with marginal profits	Cereal- food grains production to the tune of 60% of total volume which are high volume and low value in nature with marginal net returns.	No	Equal	M
27.NSICL	-	-	-	More-Profit	M
28.ONGC	Y	To operate in an environmentall y harmonious manner	-	Equal	M
29.RCFL	-	The mission statement interalia provides that the company shall serve the farmer community by providing quality good and services.	-	More-Profit	S
30.SCIL	-	-	-	-	-
31.SIIL	Yes. Incidental objectives such	Environmental management	4%	Equal	M

	as contribution to scientific , charitable institutions, etc.				
32.STC	N	-	-	No priority to social	M
33.TCIL	-	-	-	-	P
34.VSNL	The company has framed micro objectives which include social objectives	-	-	More-Profit	S
35.WPCS	-	-	-	-	S

Table-3.2.1 New Economic Policy (Q.2.6-Q.2.7)

Name of the Enterprise	**Has the NEP resulted in minimising the role of Govt. in the admn. & management of affairs.**	**If yes, do you,**					**Is there greater autonomy now? Y/N**	**If yes, what is the extent of Autonomy? Great/significant/moderate/ No change**
		Strongly agree	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**		
1. ANTRIX	**N**	-	-	-	-	-	N	-
2. BCPL	**N**	-	-	-	-	-	N	-
3. BDL	**N**	-	-	-	-	-	N	-
4. BEL	**N**	-	-	-	-	-	N	-
5. BPCL	**N**	-	-	-	-	-	N	-
6. CMC	**N**	-	-	-	-	-	N	-
7. CMPDL	**N**	-	-	-	-	-	N	-
8. ECL	**Y**	✔	-	-	-	-	Y	G
9. GRSE	**N**	-	-	-	-	-	N	-
10.GSYL	-	-	-	-	-	-	-	-
11.HAL	-	-	-	-	-	-	-	-
12.HFCL	**N**	-	-	-	-	-	N	-
13.HLL	**N**	-	-	-	-	-	N	-
14.HPCL	**N**	-	-	-	-	-	N	-
15.HVOC	**N**	-	-	-	-	-	Y	M
16.ITI	**N**	-	-	-	-	-	N	-
17.MAPL	**Y**	-	✔	-	-	-	Y	G

18.MECL	**Y**	**-**	✔	**-**	**-**	**-**	Y	S
19.MTNL	**Y**	✔	**-**	**-**	**-**	**-**	Y	S
20.MDL	**Y**	**-**	✔	**-**	**-**	**-**	Y	S
21.MFL	**Y**	**-**	✔	**-**	**-**	**-**	-	-
22.NALCO	**N**	**-**	**-**	**-**	**-**	**-**	-	-
23.NEPA	**Y**	**-**	✔	**-**	**-**	**-**	N	-
24.NHPC	**N**	**-**	**-**	**-**	**-**	**-**	N	-
25.NPC	**Y**	**-**	✔	**-**	**-**	**-**	Y	M
26.NSC	**Y**	**-**	✔	**-**	**-**	**-**	Y	M
27.NSICL	**N**	**-**	**-**	**-**	**-**	**-**	N	-
28.ONGC	**N**	**-**	**-**	**-**	**-**	**-**	N	-
29.RCFL	**Y**	**-**	✔	**-**	**-**	**-**	Y	M
30.SCIL	**-**	**-**	**-**	**-**	**-**	**-**	-	-
31.SIIL	**N**	**-**	**-**	**-**	**-**	**-**	N	-
32.STC	**N**	**-**	**-**	**-**	**-**	**-**	N	-
33.TCIL	**N**	**-**	**-**	**-**	**-**	**-**	N	-
34.VSNL	**N**	**-**	**-**	**-**	**-**	**-**	N	-
35.WPCS	**-**	**-**	**-**	**-**	**-**	**-**	-	-

Table-3.3 MoU (Q. 3.1-3.3)

Name of the Enterprise	**Has your enterprise entered into MoU with the Govt? Y/N**	**Should the period of MoU be increased from the present 1 yr? Y/N if yes, specify no. of yrs.**	**Impact of MoU system on Enterprise which you strongly agree(S), agree(A), neutral(N), disagree(D), strongly disagree(SD) in the following:**			
			Autonomy has increased	**Free hand to Board on policy decisions is given.**	**Accountability of the mgt. has increased**	**Overall performance has increased**
1. ANTRIX	**N**	**-**	**-**	**-**	**-**	**-**
2. BCPL	**N**	**Y, 3**	**-**	**-**	**-**	**-**
3. BDL	**Y**	**Y, 5**	**A**	**A**	**A**	**A**
4. BEL	**Y**	**N**	**-**	**-**	**-**	**-**
5. BPCL	**Y**	**N**	**D**	**D**	**A**	**N**
6. CMC	**Y**	**Y, 2**	**D**	**D**	**A**	**A**
7. CMPDL	**N**	**N**	**-**	**-**	**-**	**-**
8. ECL	**Y**	**N**	**S**	**S**	**A**	**A**
9. GRSE	**Y**	**Y, 3**	**D**	**N**	**A**	**A**
10.GSYL	**-**	**-**	**-**	**-**	**-**	**-**

11.HAL	**Y**	**N**	**-**	**D**	**N**	**N**
12.HFCL	**N**	**N**	**-**	**-**	**-**	**-**
13.HLL	**Y**	**Y, 3**	**SD**	**D**	**A**	**D**
14.HPCL	**Y**	**N**	**D**	**D**	**A**	**A**
15.HVOC	**Y**	**Y, 2**	**A**	**A**	**A**	**N**
16.ITI	**Y**	**Y, 2**	**D**	**D**	**A**	**D**
17.MAPL	**N**	**Y, 5**	**-**	**-**	**-**	**-**
18.MECL	**Y**	**Y, 3**	**A**	**A**	**S**	**S**
19.MTNL	**N**	**-**	**-**	**-**	**-**	**-**
20.MDL	**Y**	**Y, 3**	**N**	**A**	**A**	**N**
21.MFL	**Y**	**N**	**N**	**N**	**A**	**A**
22.NALCO	**Y**	**Y, 3**	**A**	**A**	**S**	**S**
23.NEPA	**N**	**Y, 3**	**-**	**-**	**-**	**-**
24.NHPC	**-**	**-**	**-**	**-**	**-**	**-**
25.NPC	**Y**	**Y, 3**	**A**	**S**	**S**	**S**
26.NSC	**Y**	**Y, 2**	**A**	**A**	**A**	**A**
27.NSICL	**Y**	**N**	**N**	**N**	**A**	**-**
28.ONGC	**Y**	**Y, 4**	**D**	**N**	**A**	**A**
29.RCFL	**Y**	**Y, 3**	**A**	**A**	**A**	**A**
30.SCIL	**-**	**-**	**-**	**-**	**-**	**-**
31.SIIL	**Y**	**Y, 5**	**D**	**N**	**S**	**D**
32.STC	**Y**	**Y, 5**	**SD**	**D**	**D**	**D**
33.TCIL	**N**	**Y, 3**	**-**	**-**	**-**	**-**
34.VSNL	**Y**	**N**	**D**	**D**	**A**	**N**
35.WPCS	**Y**	**Y, 3**	**N**	**N**	**S**	**A**

Table-3.4.1 Disinvestment (Q.4.1-4.4)

Name of the Enterprise	**Why the Govt. selected your enterprise for disinvestment?**	**Should the Govt. go for disinvestment upto 51% or more Y/N, Why?**	**Has overall performance of the company improved. if yes, to what extent?**	**To what extent accountability of mgt. increased?**	**Changes effected in the enterprise with respect to policies, systems, procedures, methods and techniques, supevision and control, accountability**
1. ANTRIX	-	-	-	-	**-**
2. BCPL	-	-	-	-	**-**
3. BDL	-	**N, the Govt. should continue to play a grater role in shaping the destiny of PSU of strategic importance**	**-**	**-**	-
4. BEL	**Govt. has disinvested 24.14% of BEL's**	**N, more than 75% of sales are to defence centre.**	**-**	**-**	-

	equity. The reason may be BEL's record of consistent profitability.	**Since a lot of defence sensitive information is made available to the company, it would advisilbe to keep BEL under the control of Govt. / Ministry of defence rather than privatise it.**			
5. BPCL	**To realise good market prices.**	**Y, more autonomy in working.**	**N**	**S**	**Major transformation exercise undertaken with external consultant and the various recommendations for further improvement are being implemented.**
6. CMC	**Nature of business (non strategic), size**	**Y, a part of the disinvestment money should be ploughed back, autonomy to compete with private sector, state retention and exit policy, reward and punishment system.**	**Some what improved**	**Significantly increased**	**-**
7. CMPDL	**-**	**-**	**-**	**-**	**-**
8. ECL	**-**	**Y, to manage the affairs on the lines of Board of private sector**	**-**	**-**	**-**
9. GRSE	**-**	**-**	**-**	**-**	**-**
10.GSYL	**-**	**-**	**-**	**-**	**-**
11.HAL	**HAL is one of the profit making enterprises. Govt. expects to get a substantial premium on its equity share investment because HAL's**	**No, the ultimate control should remain with the Govt. in a strategic industry. Hence disinvestment should be restricted to less**	**-**	**-**	**-**

	equity share has a good book value, moreover HAL has taken up diversification programme in civil aviation sector and also it wants HAL to be globally competitive.	**than 50%**			
12.HFCL	**-**	**-**	**-**	**-**	**Investment decisions and other policy matters are on commercial basis. Emphasis is on survival on the basis of own generation of funds.**
13.HLL	**-**	**-**	**-**	**-**	**-**
14.HPCL	**-**	**-**	**-**	**-**	**-**
15.HVOC	**-**	**-**	**-**	**-**	**-**
16.ITI	**In pursuance of Govt. policy ITI has been selected for the purpose of disinvestment. Perhaps wrong perception on part of Govt. that ITI is a non core sector.**	**No, telecom is strategic sector for any nation.**	**-**	**-**	**-**
17.MAPL	**-**	**-**	**-**	**-**	**-**
18.MECL	**-**	**-**	**-**	**-**	**-**
19.MTNL	**-**	**-**	**-**	**-**	**-**
20.MDL	**-**	**-**	**-**	**-**	**-**
21.MFL	**To strengthen the company, to promote greater competitiveness and profitability to enable payment of higher dividends and to enhance share value and reduce future dependence on the budgetary**	**Yes, as MFL has been classified as non-core industry by the disinvestment commission, disinvestment upto 51% or more by selecting a suitable strategic partner can be considered.**	**-**	**-**	**-**

	support.				
22.NALCO	**To get better price realisation.**	**No, since aluminum is a strategic metal and NALCO being a bluechip company the disinvestment must be limited to 49%.**	**-**	**Significantly**	**See Annexure.**
23.NEPA	**For revival of the unit turning sick.**	**Yes, to attract outside capital, technology and become globally competitive.**	**-**	**-**	**-**
24.NHPC	**-**	**-**	**-**	**-**	**-**
25.NPC	**-**	**-**	**-**	**-**	**-**
26.NSC	**-**	**-**	**-**	**-**	**-**
27.NSICL	**-**	**-**	**-**	**-**	**-**
28.ONGC	**The disinvestment in ONGC, so far, is taken (only about 4%) and does not have much impact in its functioning as on date. To move in the direction of market economy through greater autonomy and accountability with an ultimate objective of correcting structural imbalances.**	**Yes, E&P is a high risk business. As a navaratna, ONGC has to make significant forays into oversees venture by forming in producing properties wherever feasible, besides in exploration ventures. The decision taken on such ventures are based on speculations at the time of decision making when all information is not available. At the same time the decisions have to be taken within a tight time frame. Thereafter, the work with co-venturers will have to be carried out through trust and purely commercial consideration, even if both positive and negative surprises come up later. A govt. company with multiple audits and scrutiny from various Govt. bodies can not function in such a scenario. Hence the only way for ONGC to be a true global player will be to reduce govt. share holding below 50%. Besides this, the shrinkage of technological life cycles and development of specialised technology warrants speedier and proprietory technology acquisition which may only be possible if commercial decisions are not subject to public audit and legal scrutiny.**			
29.RCFL	**A profit making company, large equity base, professionally managed company.**	**Yes, the company would benefit from larger private participation on account of market accountability, future possibilities of raising public issues.**	**Moderately improved**	**Significantly improved**	**Detailed studies for improvement is being undertaken and it is expected that there would be significant changes in respect of all systems and procedures.**
30.SCIL	**-**	**-**	**-**	**-**	**Policies framed by Govt. / AEC/**

					Board, procurement systems, MIS, Project management systems prescribed along with systems in finance and accounts, procedures established through HQI and reformation of delegations. Manuals in finance and accounts finalised, regular reviews of operating systems and procedures
31.SIIL	**-**	**-**	**-**	**-**	**-**
32.STC	**Because of being a profit making company.**	**Yes, absolutely essential for making PSUs autonomus where board could take all policy decisions.**	**Not at all improved**	**Not at all increased**	**-**
33.TCIL	**This company is a sick unit, not engaged in core sector business, needs substantial investment, new technology to become competitive.**	**Yes, nobody would be willing to invest with GOI as major partner as they will not have control**	**-**	**-**	**-**
34.VSNL	**Because VSNL is one of the blue chip PSUs**	**Yes, it is absolutely necessary to relive PSUs from the rigors of the parliamentary committees, C&AG, supplementary Audit and other time engaging exercises. For**	**Moderately**	**Significantly**	**Policies now reflect share holder oriented approach, no direct relation with disinvestmen t, accountabilit y has gone up through**

		this purpose, selected PSUs like Navaratnas should be further disinvested so as to bring down Govt. holding below 50%.			**stock exchange disclosure mechanism and several share holders attending the general meeting.**
35.WPCS	**-**	**-**	**-**	**-**	**-**

From Crowning Jewels to Bleeding Ulcers : Some Reflections on Satyam Computer Services[#]

Prof.R.K. Mishra* & Dr.K.Trivikram**

Back in the eighties, a young entrepreneur Ramalinga Raju started Satyam Spinning Mills, Raju, a keen observer of global markets coupled with a mindset for innovative thinking, read the growth prospects and potential of information technology and the role that India could play in it. Without any background whatsoever in Information Technology (IT) but an implicit faith that the 'spirit of entrepreneurship' is transferable across any field of endeavour, Raju founded Satyam Computer Services on 24th June, 1987. From 1987 till the revelation, the fairy tale saga continued alongside the Indian IT growth story in terms of bagging the first Fortune 500 client, Deere & Co., in 1991, listing on Bombay Stock Exchange (BSE), an IPO oversubscribed 17 times, later a New York Stock Exchange (NYSE) listing and in 2008 a secondary listing on Euronext Amsterdam under NYSE Euronext's new "fast path" process for cross listings in New York and Europe, not to speak of numerous global accolades and awards.

Satyam, whose clients include General Electric, Nestle, Qantas Airways and Fujitsu, specialises in business software and offers back office outsourcing and consulting services. Satyam, based in Hyderabad, had more than 50,000[1] employees (a disputable figure) at the end of the September quarter 2008. Listed on the NYSE, the company was audited by Pricewaterhouse Coopers (is currently replaced), a big four accounting firm. It is among the region's top two companies for "Best Corporate Governance Practices". It claims that "delighting stakeholder" is a part of everything that the management does.

Board of Directors

The company's board was star-studded with an unusually large number of independent directors, six out of nine were with excellent credentials. Besides Ramalinga Raju, his brother and co-founder Rama Raju, the board's independent directors comprised:

M Rammohan Rao (Director, Indian School of Business), Vinod Dham (the Silicon Valley entrepreneur), T.R.Prasad (former Cabinet Secretary, Government of India),
Dr.(Mrs)Mangalam Srinivasan (a retired academician and bureaucrat) and Prof.V S Raju (former Director, IIT Delhi). (see Table) It also had HBS Prof.Krishna Palepu as the non-executive Director. The independent Directors were paid between Rs.12.1 to Rs.13.2 lakh last year as sitting fee and got between 5000-10,000 stock options.

The Study coverage is up to the end of January, 2009.

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Board of Directors of Satyam Computer Services (till December 2008)

Mr.B. Ramalinga Raju	Promoter and Executive Director	Chairman
Mr.B. Rama Raju	Promoter and Executive Director	Managing Director
Mr.Ram Mynampati	Director in whole-time Management	Whole-time Director
Dr.(Mrs.)Mangalam Srinivasan	Independent and Non-Executive Director	Director
Prof.Krishna G. Palepu	Non-Executive Director	Director
Mr.Vinod K Dham	Independent and Non-Executive Director	Director
Prof.M. Rammohan Rao	Independent and Non-Executive Director	Director
Mr.T. R. Prasad	Independent and Non-Executive Director	Director

Prof.V.S. Raju	Independent and Non-Executive Director	Director

Shareholding Pattern

Foreign Institutional investors hold the key and quite a few of them hold big chunks of Satyam's equity. The rest is held by public shareholders, domestic institutions and depository receipt holders with Raju's family holding less than 9 per cent. (see Table)

Satyam Computer Services Ltd.		
Category Code	**Category of Shareholder**	**Quarter ended : March 31, 2008**
(A)	**Shareholding of Promoters and Promoter Group**	
1	**Indian**	
(a)	Individuals/Hindu Undivided Family	8.4
(b)	Central Government/State	-
(c)	Bodies Corporate	-
(d)	Financial Institutions/Banks	-
(e)	Any Other	-
	Trusts	0.3
	Sub-Total	
2	**Foreign**	-
(a)	Individuals (Non-resident individuals/Foreign individuals)	-
(b)	Bodies	-
(c)	Institutions	-
(d)	Any other (specify)	-
(e)	**Sub-Total**	-
	Total Shareholding of Promoter and A(1) + (A(2)	**8.7**
(B)	**Public Shareholding(s)**	
1	**Institutions**	

	Mutual Funds/UTI	4.8
	Financial Institutions/Banks	0.0
	Central Government/State Government(s)	-
	Venture Capital Funds	-
	Insurance Companies	8.03
	Foreign Institutional Investors	48.22
	Foreign Venture Capital Investors	-
	Any other	-
	Sub-total (B)(I)	61.22
2	**Non-institutions**	
(a)	Corporate Bodies	0.59
(b)	Individuals -	
	(i) Individual shareholders holding nominal share capital	
	(i) Individual shareholders holding nominal share capital	
	up to Rs.l lakh.up to Rs.l lakh.	8.03
	(ii) Individual shareholders holding nominal share capital in excess	0.72
(c)	Any others (Specify)	
	(i) Non-Resident	1.24
	(ii) Foreign Nationals	0.0
	(iii) Trusts	0.0
	Sub-Total (B)(2)	10.58
	Total Public Shareholding (B)= (B)(1)+(B)(2)	71.8
	TOTAL (A)+(B)	80.54
	Shares held by Custodians and Receipts have been issued	19.46
	GRAND TOTAL (A)+(B)+(C)	100.00

Source : Annual Report 2007-2008.

Over the years, Raju and his family diluted their stake from 25.60 per cent in March 2001 to 8.61 per cent in September 2008, (see Table below) the period during which the company vaulted from being a fringe player to become a top four player. Rajus had 55.7 million shares (amounting to 8.61 per cent stake) through SRSR Holdings, a family-owned investment company at the end of the September quarter (2008)

Raju's Dilution of Family Stake in Satyam Computer Services

Year	Promoter Holding (%)

March 2001	25.60
June 2001	22.89
December 2001	22.40
March 2002	22.26
June 2002	22.02
December 2002	20.87
March 2003	20.74
December 2003	18.30
March 2004	17.35
June 2004	16.78
December 2004	15.71
March 2005	15.67
December 2005	14.07
March 2006	14.02
September 2006	9.15
December 2006	9.11
March 2007	8.80
December 2007	8.76
March 2008	8.74
June 2008	8.62
September 2008	8.61

Source : Company Quarterly Reports.

Maytas - All for One and One for All

Ramalinga Raju had floated 23 companies under the Maytas banner (Maytas—which is S-a-t-y-a-m spelled backwards) branching out into a wide range of businesses. The companies had interest in mineral resources, housing, solar power, SEZ, consulting and ferro industries, etc. But, the majority of them are in real estate, with names such as Maytas Orange County Pvt. Ltd., Maytas Hill County Pvt. Ltd., Maytas Buildtech Pvt. Ltd., and Maytas Developers Pvt. Ltd. These arrangements have the flavour of managing agency in terms of the family controlling a clutch of companies by means of financial engineerings.

Though Satyam promoters had floated the Maytas banner two decades ago, only the Infra and Properties companies had become active. It was only three years ago that the remaining entities were registered and made operational.

List of Maytas Companies*

• Maytas Infrastructure	• Maytas SEZ	• Maytas Infratech	• Maytas Developers
• Maytas Orange Country	• Maytas Ventures SEZ	• Maytas Holdings	• Maytas Enterprises Residences
• Maytas Mineral Resources	• Maytas Logipark (Isnapur)	• Maytas Affordable Homes	• Maytas Ferro Industries
• Maytas Infrasis	• Maytas Housing	• Maytas Avenues	
• Maytas Solar Power	• Maytas Projects	• Maytas Buildtech	
• Maytas Properties	• Maytas Estates	• Maytas Construction	
• Maytas Hill Country			

* These companies are only a tip of the iceberg and the latest disclosure by the investigating agencies reportedly runs into 300 companies named after the zodiac and astrological signs and symbols.

Maytas Infrastructure - From Virtual to Real

Maytas Infrastructure is a 23 year-old company engaged in infrastructure development encompassing core areas of India's economic growth such as airports, railways, ports, highways, transport management systems, power, oil and gas, irrigation, water treatment, etc. As of March 2008, the company which had a turnover of just Rs.1,637 crore turnover and net profit of Rs.99.64 crore for 2007-08, carried a debt of Rs.935.70 crore.

Another venture Maytas Properties that was set up recently is into development of urban infrastructure such as integrated townships, Special Economic Zones (SEZs), hospitality, retail and entertainment spaces meeting the enormous and rapidly growing need for high quality spaces in tier-1 and tier-2 cities had plans to build housing estates and a SEZ close to Hyderabad. Maytas Infrastructure has B. Teja Raju as vice-chairman and Maytas Properties has B. Rama Raju junior as chairman.

Pride and Prejudice

Ramalinga Raju was so much a symbol of telugu pride that successive governments in Andhra Pradesh facilitated his rise, pitting him against Karnataka's IT giants Infosys and Wipro. During this time of his stay in Satyam, he went on a real estate buying spree and snapped up a slew of prestigious projects that include the Rs.12,000 crores metro rail scheme, the Rs.1,500-crore Machilipatnam port project and three SEZs in Kakinada.

Hyderabad Metro Rail

The emergence of Maytas-Navabharat-Ital Thai (Thailand) and IL&FS as the lowest bidder for the prestigious Rs.11,814-crore Hyderabad Metro Rail project had raised many eyebrows which is not without any reason. The other three consortia (excluding GVK-led consortium that opted out of the bidding process) included global majors Siemens of Germany, Bombardier of Canada and Alstom of France. These three global majors have a role in about 90 per cent of the 130 odd metro projects in the world.

Considering the fact that the twin cities population having stood at 7.7 million, is anticipated to touch 1.36 crore by 2021, coupled with the city roads that could not handle the traffic pressure beyond a point, necessitated an alternative model by means of an elevated metro rail. In order to meet the repayment obligations to the government, the consortium proposed to generate income from the sales of tickets in anticipation of the enormous commercial activity that would probably abound at the terminal points (100 acres each at Miyapur and Nagole; and 17 acres at Falaknuma) besides the spaces abutting the 33 stations in the foreseeable future. This seemed to have played a crucial role for the consortium clinching the project, which sought to construct an elevated metro rail covering a distance of 71 kms.

The consortium has committed a colossal of Rs.30,311 crore to the Andhra Pradesh government through the 35-year concession period (which should happen in six months; Rs.200 crore in the fourth year and Rs.1,750 crore from 18 to 34 years.

Maytas Infra needed to raise Rs.12,000 crore over the next five years to complete the metro rail project slated to come up on 269 acres of land in the city. Of the 35-year lease Maytas has got for the project under public private partnership to pay around Rs.500 crore by the 17th year and another Rs.30,000 crore from then to the 35th year.

After bagging the project, Maytas Infra paid Rs.11 crore as an initial amount at the time of agreement with the state government in September 2008. Subsequently, it paid Rs.60 crore towards security deposit to the authorities and by March 2009, the company has to pay Rs.180 crore as performance guarantee amount. Representatives of Maytas Infra have claimed before the state government that it had tied up with banks and other sources to raise 60 per cent of the money for the metro rail project besides, 100 consultants have been engaged for the project and the survey work was completed. The designs being prepared and vendors short listed, they were in the process of inviting tenders for the coaches and for the mechanical and electrical works. However, others were not enthusiastic[4].

As far as Maytas properties is concerned, the actual approval for Maytas Hill County SEZ Pvt. Ltd., was given on June 5, 2008, by the Multi Storied Building Committee of the Hyderabad Metro Development Authority (HMDA) headed by the metropolitan commissioner. The project is being proposed in the 300 acres for construction of residential apartments, township with villas, duplex houses, commercial space and special economic zone for IT and ITES companies with world-class amenities.

Maytas should have paid developmental charges of Rs.1.64 crore and impact fee of Rs.9.84 crores besides other charges of Rs.8.77 lakhs to the HMDA, soon after getting the permission. Normally, builders should have paid the amount immediately after securing approval of their projects and take the sanctioned plan though the HMDA gives 30 days time. But the fact that Maytas Hill County SEZ Pvt. Ltd's., failure to clear its dues amounting to Rs.11 crore to the HMDA, towards development charges, impact fee, etc., for its project at Bachupally near hi-tec city warranted several reminders from the HMDA which went unanswered, though Maytas officials claim that they have informally sought six months time to pay up. Market sources allege that the group had unofficially started bookings for apartments, villas and duplex houses much before any green signal from the urban development authority. In fact, objections were raised by some people over the advertisement of the project before obtaining any formal approval from the HMDA.

Maytas Properties, which is run by Ramalinga Raju's son, has a land stretch of 6,800 acres. Apart from this, the family members own several hundreds of acres individually. The global recession of 2008 has taken things beyond redemption for the Raju family as there were no financial institutions healthy enough to finance them on the security of their land stretch.

From Iconic Status to Arch Villain

With a view to derisk the core business, Raju termed the Maytas acquisition proposal as a 'diversification strategy' for accelerated growth in additional geographies and market segments. Raju set the tone for the Board meeting by telling the directors that they had to swallow the "poison pill" of acquiring his family firms because, IBM and another company were looking to take over Satyam for its cash reserves. He claimed that this would diversify Satyam out of computer software into infrastructure and realty and would hold up better than software services in the difficult times ahead. Raju announced a buyout of 100 per cent stake in Maytas Properties and 51 per cent in Maytas Infra, (31 per cent from promoters (at Rs.475 a share) and 20 per cent from the public at (Rs.525). effectively making Satyam, a core real estate company from a core IT company overnight. The total outflow for both the proposed acquisitions was a whopping \$1.6billion comprising of \$1.3billion for the 100 per cent stake in Maytas Properties and \$300 million for a 51 per cent stake in Maytas Infrastructure.

Seven of the nine members of Satyam's board were physically present at the meeting, while two others were on conference call. All the independent directors said "yes" to the deal and only two family directors abstained because, they were "interested parties"[5]. The board approved the deal and former Satyam chairman Ramalinga Raju had touted this clearance as the basis to go ahead with the deal[6].

The proposed acquisitions had two complicated aspects—unrelated diversification, and related party transactions. When foreign institutional investors came to know of the move, they immediately sold their share holdings driving down its price from $12 to $5.70. Satyam ADRs, listed on a US technology stock exchange, NASDAQ, lost 50 per cent of their value in a day. The proposal, had it been cleared by the Satyam board on December 29, would have lead to a 1 per cent hike in the promoter's stake (at 8.6 per cent).

At least five major brokerage firms immediately downgraded Satyam for poor corporate governance and a shift in the management focus.

There must be even more compelling reasons than just greed and unethical behaviour—which forced Raju to this corporate crime. A promoter is supposed to promote a project not his progeny; the right place for that is in politics[8]. Knowing that the real estate prices have hit rock bottom due to the ongoing global market prices ,how can such a decision be taken at the expense of the investors. This showed that Raju wanted to pull his son out of troubled waters at the expense of millions of small and big investors, who have invested in Satyam—typical Indian Zamindari System and Feudalism.

Resignations

The turmoil at Satyam Computer Services claimed its first top-level victim. The board members alleged that important facts were concealed from the board and thus they were misguided.

Dr.Mangalam Srinivasan, who has been a director on the board since July 1991, resigned taking moral responsibility for voting in favour of the controversial acquisitions, suggested the management to involve the board members right from the beginning of the process to avoid the impression that the board is used as a rubber stamp to affirm the consequences or decisions already reached.

This has put pressure on other independent directors to follow her example. Dismayed by the turn of events, Prof.Mendu Rammohan Rao, Vinod Dham Krishna G. Palepu T.R. Prasad joined Mangalam Srinivasan, resigning from the nine-member Board. Resignation of four independent directors from the Board of Satyam Computers came in for criticism from corporate lawyers, company secretaries and chartered accountants, who raised the issue of 'fiduciary duties' of such nominees. The resignations are a culmination of the infamous December 16 Board meeting that approved Satyam's plan to acquire two companies promoted by Raju's family, but the deal was called off within hours, following investors' dissent.

As Raju said, no board member had any knowledge whatsoever of the situation in which the company was placed. But, when a bust occurs, the board members have to take responsibility. Satyam could boast of one of the best Board of Directors. It has six non-executive directors against only three executive directors. The non-executive directors include globally acclaimed academics, engineers and bureaucrats. The Board is clearly erudite and is as well-equipped to ensure good corporate governance as one can get it to be. It is also well-paid. Each non-executive director is paid Rs.12 lakh per annum for his services and Prof.Palepu was additionally paid a neat Rs.79.5 lakh as professional fees. They may wonder if this responsibility is worth the remuneration they get as directors, since they cannot blow the whistle at the right time because, they cannot see the thief at large.

Past Perfect but Future Tense

It now transpired that Satyam never really had the kind of money it claimed it possessed to undertake the investments it proposed in Mr. Raju's son's firms. On the contrary, Raju himself had acknowledged in his infamous *"riding the tiger not knowing how to get off without being eaten"* letter of January 7, the aborted Maytas acquisition deal was the last attempt to fill the fictitious assets (of Satyam) with real ones**.** The tiger carried Raju deep into the woods. Satyam expanded at a scorching pace on the back of outsourcing demand from Western firms. Obviously, Raju went from strength-to-strength revealing terrific quarter-on-quarter performance, often beating street expectations, without anyone catching on to any wrongdoing. That pressure to maintain the pace of growth, please investors and shareholders and justify inflated P/E multiples during a six-year bull run on the stock market have all been cited as reasons why Satyam cooked the books.

Role of Referee without Rules

Unlike independent directors, auditors make a living out of auditing the books of accounts of companies. The role of the auditor is to verify the figures, financial information and satisfy themselves. How did something like this cross the scrutiny of auditors for so many quarters?" Apart from acting as an auditor of a company, a chartered accountant's role has been expanded to look into the possibilities of fraudulent financial reporting and misappropriation of assets within a company,

A failure on their part to detect frauds is unpardonable. In the case of Satyam, the auditors, Pricewaterhouse Coopers (PwC) have given a clean chit to the company for its accounts for the year ended March 2008. In other words, they have certified that the financial statements do give a true and fair picture of the financial performance and status of the company. PwC took refuge behind client confidentiality to ward off questions on its role in the Satyam, accounting fraud. The firm said that as the statutory auditors of Satyam, the audits were conducted by PwC, in accordance with applicable auditing standards and were supported by appropriate audit evidence. The audit firm's statement does not absolve it of the default committed by signing those financial statements. They have been the company's statutory auditors for the past nine years. The biggest weakness of PwC is that it is just one among a clutch of audit firms that carry the PwC label in India, but not necessarily having the level of competence that characterises the mother firm, which is PwC International. In India, the latter can only provide consultancy services because, laws here allow only domestic firms to do audit They should know. But, now the question is: did they know the truth and were they co-conspirators or were they incompetent. Either way, it is one more part of the edifice that holds the modern system of doing business that is crumbling against the power of management frauds.

Role of Institutional Investors

Raju's mandate was to run an IT services firm. But, he chose to divert a big chunk of cash into a completely unrelated business—infrastructure. What the independent directors and auditors could not find, the markets have helped find. It was the objection of institutional investors to the merger of the two companies that led to the ultimate revelation of the accounting frauds.

This was a clear example of one promoter shareholder, shockingly backed by the board, imposing his will against the interests of the other shareholders though the company hurriedly withdrew the proposal, the damage had been done—it set off a chain of circumstances that culminated in Mr.Raju's disclosure that he was instrumental in perpetrating a fraud running into more than Rs.7,000 crore. Ramalinga Raju, resigned, admitting to falsifying accounts and assets by overstating revenues and profits while understating liabilities. But, this was just another nail in the coffin.

Went up like a Rocket and came down like a Stick

Satyam was originally started as Satyam Constructions. In 1987, Ramalinga Raju with his brother-in-law, D.V.S. Raju, founded Satyam Constructions. It was perhaps here that he inherited the construction and real industry balance sheet skills. Perhaps its Mr.Raju's real estate genes that he tried to impregnate inside an IT, a set-up that backfired.

The unravelling of what is possibly the biggest scam in Indian corporate history involving the manipulation of accounts by Satyam Computer Services is shocking beyond belief. In a letter addressed to the other board members, Mr.Raju, realising that the game was up, has admitted to systematically fudging the company's accounts over the years. The company's balance sheet as on September 30, 2008, showed an inflated Rs.5,040 crore by way of cash and bank balances and a non-existent accrued interest of Rs.376 crore. The possible motives behind Mr.Raju's actions—his letter absolves the other board members as well as the top management personnel of complicity—can only be guessed at this point in time, but they most certainly have to do with projecting the company in a much stronger position than what it actually was, in order to boost market valuations and business prospects, keeping it in the top ranks of the IT majors. The reckless strategy to window-dress the accounts artificially, boosted its key parameters, but as Raju has belatedly realised, a systematic falsification of accounts once begun, builds up to monstrous proportions. Continuing the fiction of spectacular earnings, the latest quarterly results last September, overstated the operating margin as Rs.649 crore, as against the actual Rs.61 crore.

The After-Effects

For promoter Ramalinga Raju and his family members, who held 8.61 per cent (September 2008) (5,80,05,946 shares) in the company, meant a loss of a collosal Rs.2,373 crore in market capitalisation in just eight months. Subsequently, the Rajus were only worth Rs.783 crore by their shares a far cry from the Rs.3,155.52 crore in May 2008. This is a rare but welcome example of investor activism. Dow Jones Indexes, a leading global index provider, has removed Satyam Computer from its 'Dow Jones India Titans 30 Index'. It has already been removed from various indices—Nifty and the Sensex—computed by NSE and BSE. NSE halted trading in Satyam Computer at its bourses in the US as well as Amsterdam in Europe. Satyam's shares fell nearly 80 per cent in India and dragged down Bombay's main benchmark index by 7.3 per cent.

The after-effects of this episode reflected a collosal loss to the tune of as much as Rs.10,000 crore in market capitalisation (m-cap) in a single trading session, after the scrip dipped to hit an all-time low level. In other words, it saw a massive value erosion and fell nearly 80 per cent after the management revealed malpractices in accounting methods. The company had a market capitalisation of Rs.12,067.98 crore and finally, at trading session its m-cap stood at Rs.2,691.88 crore.

Trouble comes not in Ones but in Twos and Threes

Raju's problems were further compounded with the World Bank making public, a eight-year ban on Satyam Computer, on charges of bribery and unacceptable business practices, not to speak of the suits already being slapped for forgery, fraud and breach of contract by the UK-based mobile payments specialist Upaid.

Margin Call

The promoters have pledged all their shares in the company with institutional lenders and that some lenders have exercised their option to liquidate shares at their discretion to cover margin calls. Financial institutions have sold off 2.11 crore shares of Satyam Computers, which were pledged by its promoters in the open market for margin call. This brought down the stake of Ramalinga Raju's stake in the company to 5.47 per cent or 3,47,50,831 shares.

In a notice to the NSE, SCS said the stake of the company's promoters—SRSR Holdings Pvt. Ltd.,—had come down to 5.13 per cent or 3,45,79,497 shares as against 8.27 per cent after lenders sold off 2,11,48,503 pledged shares, worth about Rs.300 crore, in the open market. Apart from this, the promoters have 1,71,334 shares or 0.34 per cent in individual capacity, taking the total promoter holding to 5.47 per cent.

This particular announcement brings down the curtains on the speculation that kicked off about the stake of the Raju family, after the company announced on December 27, about the dilution of the promoters' stake. The stock was trading at Rs.135 per share on December 29, when bourses saw a sudden spurt in block deals in the scrip, which was seeing heavy trading since the aborted December 16, Satyam-Maytas deal. The Satyam promoters had earlier announced that, their entire stockholding has been pledged with lenders. With this sale, the total stockholding that has been pledged with lenders is worth Rs.613.96 crore on the basis of the last traded price of Rs.177.55.

A Bait Waiting for the Multiple Bite

SEBI is examining the proposed transaction and the government has directed the Registrar of Companies to study the deal for possible governance violations and submit a report in three weeks. The Enforcement Directorate of the Finance Ministry—stepped into the picture by launching its own investigation into the possible violation of the Foreign Exchange Management Act (FEMA) by the company. The Income Tax department too joined the list of Central agencies investigating into the fraud. The Securities and the Serious Fraud Investigation Office (SFIO)[7] are already investigating into alleged violation of regulations relating to the stock market and company laws. The revelations about the multi-angled racket percolate down to documents of land deals that are emerging out of the shelves of the searched premises of Mr. Raju and his family members in the inquiries by the Crime Investigation Department (CID) of the Andhra Pradesh Police. As the probes have just scraped the surface, there appeared to be more scams in store. Even as investigations at different levels are going on at Satyam to determine culpability in the massive accounting fraud, it needs to be examined how corporate governance could be brought to such a total collapse. It therefore becomes all the more necessary for the authorities to send out a clear message that transgressions will be dealt with under the law without any hint of softness. Greater co-ordination is necessary among the different investigating agencies to ensure that the guilty do not escape.

Some Reflections

The absence of transparency in the decision-making process suggests that, these perhaps were compelling circumstances for the target companies in the acquisition rather than for the acquirer. Whatever be the circumstances, a false market had been created in the shares/depository receipts of the company for howsoever short a time that was entirely avoidable.

Many Indian companies—with a few exceptions—are owned/controlled by business families. This poses a special challenge for corporate governance. In well-managed companies, independent directors are viewed as partners of management and as outside guardians whose job is to make sure that management stays focused on delivering shareholder value. Other companies, however, might consider independent directors to be a burden that has to be borne mainly to satisfy regulatory rules for compliance.

It was for this reason that the SEBI stipulated that at least half the board must have independent directors. These outside directors should be able to provide the counter-balance to the zeal of the promoter family and protect the interests of minority shareholders. But, even as companies started recruiting independent board members to comply with the SEBI directive, the culture of docile boards did not go away.

It also highlights cultural risks inherent in India's family-owned businesses, About half the companies in the BSE's benchmark 30-share index are family controlled which have long battled issues such as nepotism, mismanagement, weak boards and lack of transparency and professionalism.

The biggest question mark on the Satyam fraud is how a Sensex-30 company carried a non-existent cash reserve of Rs.5,040 crore on its balance sheet that passed muster with all regulatory bodies, in India and abroad and was certified correct by its audit firm—Pricewaterhouse, the Indian arm of PwC.

It appears that the mandatory accounting and auditing tools were not followed by the audit firm and it would be too naïve to say that they did not have any clues about it. Such kinds of frauds do happen in small unlisted companies, but the Satyam fraud is unprecedented in the history of corporate India and is much beyond the issue of corporate governance.

Satyam is not just a failure of an inflated company, but a failure of an inflated economy. Bubbles are a phenomenon in inflated economies. Here, there are two bubbles: equity and real estate. Former RBI Governor Y. V. Reddy had repeatedly warned that these bubbles might burst any time.

In Satyam's case, the independent directors failed in their duty, the auditors have blundered, all internal and external checks and balances went haywire and the regulatory authorities, the SEBI, the stock exchanges and the company law administration have been lax. If one or a few promoters could get away with such a massive fudge for more than seven years, it does not speak well of governance in practice.

Conclusion

The Satyam affair has been a traumatic and shameful experience for India. It is sobering to reflect that the world now questions India's integrity and prospects as an attractive investment destination. While it is absolutely true that Satyam is neither the first nor will it be the last financial scam to hit India, the fact remains that this is a crucial time for our economy and the scandal could not have hit at a worse time—in the midst of a global meltdown, India was being projected as the one safe place as *"owners pride and neighbours envy"* where, prudent policies and hugely talented manpower would ensure safety and productivity of investment. This projection is now severely damaged.

This is particularly so, when there is frequent recurrence of devastating scandals such as the Enron, Worldcom, Sunbeam, Parmalat, Lehman, AIG, Ponzi scheme, Madoff saga being witnessed in the USA and irrespective of what happens elsewhere in the world, it is important to remember that India has more to prove and more to lose. While the law will take its course, this incident is particularly unfortunate as the Indian IT-BPO industry had set very high standards of ethics and corporate governance. A glance at the Table below shows that, India stood third with a score of 56 per cent in terms of Corporate Governance Rules and Practices among the countries listed thereunder, reinforcing that Satyam episode may be a stand alone case of failure of corporate governance and it is critical that it be viewed in this light. However, stringent disclosure norms can certainly help establish a better corporate governance system. But, it must be kept in mind that a moral crisis precipitated by floundering ethical norms cannot be fully averted through regulatory measures alone. Unless ethics are as important to us as economics, fair play as crucial as financial success, morals as vital as market share, we run the risk of being blotted out of our stake holder's landscape.

Market Ranking : CG Quality 2007

(Scores for Rulemaking exceeds Scores for Enforcement, Institutions, Culture

(Scores in Percentage)

Market	CG Rules & Practices	Enforcement (Public/Private)	Political/ Regulatory	IGAAP	CG Culture	Total Score
Hongkong	60	56	73	83	61	67
Singapore	70	50	65	88	53	65
India	59	38	58	75	50	56
Taiwan	49	47	60	70	46	54
Japan	43	46	52	72	44	52
Korea	45	39	48	68	43	49
Malaysia	43	35	56	78	33	49
Thailand	58	36	31	70	39	47
China	43	33	52	73	25	45
The Philippines	39	19	38	75	36	41
Indonesia	39	22	35	65	25	37

Source : Asian Corporate Governance Association.

Needless for us to mention, it is once again of utmost importance for corporate India and the country to put its shoulders to the wheel and not rest until India's reputation is restored and its economy and democracy are back on a safe trajectory of growth.

Suggestions

- Satyam should be a wake-up call for all of us to take off the yellow-tinted glasses of our prejudices and collectively identify the common enemy: corruption, dishonesty, non-performing sections or disruptive elements in our system.
- The Companies Act gives the pride of place to company directors, collectively called the board of directors. From a strictly legal angle, it would be difficult to charge a director or a board for having failed in his or its duties, when the duties are not defined. This omission to clearly enunciate the duties of directors is sought to be made good in the new Companies Bill, 2008, introduced recently in Parliament.
- It is hoped that this will help in strengthening the corporate concept and infusing a new sense of understanding, commitment and responsibility in the thousands of directors who constitute the boards of Indian companies. This should enable them to perform a more active role for the good of the companies and their investors.
- Today the appointments with few exceptions are promoter-driven and have reduced the idea of independent directors to a colossal myth. With a limited pool of qualified and experienced managers from which to pick independent directors, promoters typically tap a network of associates and it is not unusual to see employees, advisors, directors (independent or executive)—who have a financial dependence on the promoter, are less likely to expose corporate malpractice unless the law provides them with better safeguards in terms of fixed terms and fixed compensation for the independent directors with the promoter prohibited from influencing those decisions. Without such safeguards, independent directors will continue to be drawn from the promoter's friends, family and social circle with the same familiar names doing rounds on several boards.
- The Board should choose independent directors from only among the names recommended by the nominations committee. The concomitant requirement would be to prescribe a fixed tenure for independent directors and to replace them by rotation so as to have continuity with change.
- It is on the basis of the sanctity of audit that investors, analysts, rating agencies, fund managers and nearly everyone else takes appropriate decisions in their functional areas. The need, therefore, is to look at responses that could help reinforce our belief in the process of audit.
- The lack of restrictions placed on auditors who do consulting work for the companies, where the consulting arm of the audit firm earns advisory fees for help with M&A, new entity structuring, tax minimisation etc. Often such consultancy fees dwarf the audit fees received by the accounting firm, thereby, creating a conflict of interest for the firm. There should be clear rules

in terms of the limit to which an accounting firm can undertake consultancy work for the firms they audit. India needs such restrictions if auditors are to be protected from powerful promoters.

- Moreover, as always prevention is better than cure. It is essential that the government takes immediate steps to minimise the possibility of scams occurring in the future, by introducing stricter corporate norms and facilitating more pro-active financial regulation. The crucial Companies Bill 2008 (to replace the Companies Act of 1956), provides the government a precious opportunity to tighten the loose ends in corporate governance to this effect. Such an opportunity could cost the government and the economy dearly, if it is allowed to pass.
- Directors must be compensated appropriately. Too little compensation could keep away good professionals whose time and expertise command a high price, while too much compensation could impact on independence and lead to important questions remaining unasked and unanswered. Given the current scenario in which an attractive remuneration is the only draw for many to join companies in that position, firms should lay down clear-cut policies specifying the role of an independent director and that the Company Law should be amended so that an individual is not allowed to assume the directorship of more than 7-8 companies.
- In addition to think tanks and business associations, a section of the media has indulged in sensationalism by predicting the downfall of the Indian IT sector and even corporate India. It would be necessary for the media to play its part in a responsible and constructive manner.
- The government should mandate appointment of representatives of minority shareholders on the board. Minority interest can be protected only if the directors are appointed by the minority shareholders and not by the promoters or executive management.
- Justice Mr.A R Lakshman, former Supreme Court Judge and now Chairman, Law commission of India said CG should not be restricted to only clause 49 (listed companies). It should be extended to cover all entities which are engaged in economic activities like education and health care. It should also include climate change, social responsibility and global warming as they all have an impact on the environment.

- Instances of promoter high-handedness does not necessarily call for tighter corporate governance codes. We have enough laws in place. Clause 49 of the Listing Agreement, are on par with those in other parts of the world. What is required at this stage is that, our companies follow the law in spirit and not in letter alone.
- Satyam, today, stands at the mercy of national/global regulatory actions/investigations. These actions have sent the right signals to the rest of the world. But mere initiation of investigations

is not enough. The investigations have to be seen to their correct and logical conclusion. The Satyam scandal is a chance for India to show her regulation has teeth.

Notes

1. Annual Report - 2007-2008.

3. According to the company law experts, corporate swindlers intending to siphon off funds often floated several smaller companies in a bid to bypass scrutiny of legal and regulatory agencies. In other words, money is usually funneled through a web of companies to mask the identity of the real beneficiaries, dodge taxes and make it harder for regulators to follow the cash trail. Such a complex network can also be used to increase a promoter's share in a company without drawing attention.

4. According to M.C. Ramachandraiah of the Citizens for a Better Public Transport, that Maytas has no previous experience whatsoever in constructing a metro rail project and its financial position does not appear to be sound, besides the financial institutions and banks not willing to loan Maytas the money needed for the metro project.

5. It is understood that the company's board had been deliberating on this issue for the last three months.

6. Market pressure, especially exerted by foreign investors, bludgeoned him into good governance. Legally, Raju needed no shareholder clearance: approval from a supine board was enough. This approach was used by promoters galore in the past decades to milk widely held companies to benefit family-run concerns. Such wealth diversion was quite common before the 1990s.

7. The Serious Fraud Investigation Office (SFIO) is conceived as a multidisciplinary unit capable of investigating corporate white collar crime professionally. The SFIO will consist of officers possessing experience in the fields of Company Law, Income Tax, Information Technology, etc.

8. Satyam was originally started as Satyam Constructions. In 1987, Ramalinga Raju with his bother-in-law D.V.S. Raju, founded Satyam Constructions. It was perhaps here that he inherited the construction and real industry balance sheet skills. Perhaps it's Mr.Raju's real estate genes that he tried to impregnate inside an IT set-up that back fired.