

## **CHAPTER II**

### **PERSONNEL POLICIES**

#### **(b) Composition of Board of Directors**

##### **1. DPE/Guidelines/II(b)/1**

##### **Composition of Boards of Directors of Public Enterprises**

The question as to how the structure of the Boards of Directors of Public Enterprises can be rationalized, consistent with efficient functioning of these enterprises has been under consideration of Government for some time. It has now been decided that the following principles should be followed by the administrative Ministries in this regard:

i. For large multi-unit enterprises and large trading organizations, 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 executive 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.

ii. 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.

iii. In the cases referred to in (i) and (ii) 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.

iv. The number of part-time non-official Directors on the Boards of multi-unit and multi-regional Public Enterprises may be about 1/3rd 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 latter being about 1/3rd of the total.

v. 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 utilization 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.

vi. 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 or directorships held by each officer.

vii. 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.

viii. 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 enterprises 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 enterprises.

ix. 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. (The relevant extract from the report of the Krishna Menon Committee on State Undertakings and Government's decisions thereon, referred to above, is enclosed in Annexure).

2. The above decisions are brought to the notice of the Ministry of Petroleum and Chemicals, etc., for information and compliance.

## **ANNEXURE**

### **Extract from the report of the Krishna Menon Committee on State Undertakings and Government's decision thereon.**

#### **42. Members of Parliament on Boards**

A more difficult question to decide arises in the matter of Members of Parliament or Legislative Assemblies, and whether they should be members of Boards of Management. The overwhelming weight of considerations must be against it. Such membership even if it carries no emoluments, carries much power and patronage. The Member of Parliament concerned is part of the organ of public control and is the exponent of public criticism in Parliament. As a Director or part of a concern's administration he is responsible for the very conduct and affairs which Parliament, and therefore, he is called upon to examine, criticize and judge. Having specialized and inside knowledge, he can use it in Parliament and elsewhere, when he has disagreements with his colleagues on the Board and wishes to take a line apart from the team of which he is a Member. His colleagues who are not Members of Parliament like himself cannot reply. They are "officials"—employed in State Undertakings. His Parliamentary colleagues are also at a disadvantage because he purports to speak from expert and inside knowledge. The Minister finds himself in a very embarrassing position when the matter is debated in the House.

43. There is also the further consideration—for whom does he speak?

(1) If he speaks for the industry in Parliament he takes the place of the Minister; (2) if he speaks for the Board as Managing Director or Chairman, being one himself, then he has greater facilities which other MPs do not have; (3) if he turns critic, he places every one including the industry in an adverse position.

44. It will be understood that such a Member of Parliament, who is not a member of Government, cannot take over the functions and duties of a Minister. He cannot be a critic for the reasons stated above. Thus, he can neither defend nor criticize, for as Chairman or a Director of the Company concerned he has access to information which others do not have and which he should not use. Therefore, if a Member of Parliament is Chairman or even a Director, he would disqualify himself for participation in discussions in regard to the concern he is associated with, and there would be severe limitations in regard to his participation in debates on similar concerns or State concerns as a whole. On the other hand, he cannot be obliged to sit in Parliament unconcerned, when the debate is on matters of which he has knowledge. This, in effect, would prevent him from functioning fully as a Member of Parliament. If, on the other hand, he were to use his position and his knowledge, then he places the concern of which he is an active and responsible part and the Board at a great disadvantage as well as in a position of embarrassment. His colleagues and the concern are not represented in Parliament except through the Minister. Conflicts will arise as to whom the Minister represents. In the result, therefore, appointment of Members of Parliament in Corporations is altogether an unhealthy practice and is difficult to justify.

#### *Government's Decision on the Above Recommendation*

"Members of Parliament should not be appointed to Boards of Directors".

**(BPE No. 2(158)/70-BPE (GM) dated 13th October, 1972)**