Session-1 & 2: Existing Model of Governance of SOEs

• Challenges faced in governance of SOEs impacting economic and financial performance

• Framework for SOE corporate governance:
  • Legal Framework: Clarity of mandates/responsibilities, support to good governance
  • Ownership Functions:
    • Models: Decentralized (by sectors), Dual, Advisory and Centralized
      • Ownership entity taking responsibility for monitoring of fiscal risk and performance
  • Transparency: Disclosure of information at SOE Level, Disclosure of information at Ownership Functional Level, Independent External Audit
  • Board of Directors: Roles & Objectives- Separation between Chairman & CEO?, Minority Shareholders Right.
Session-1 & 2: Existing Model of Governance of SOEs (Contd...)

- **Essential components of SOE Reforms:**
  - Contextualization,
  - Developing strong and professional ownership function,
  - Gathering and publishing of SOE data audit.

- **SOEs:** Hybrid between Public and Private Sector-Market friendly approach to SOE reform need not be Government unfriendly. *Counterview*-Inherent incompatibilities. Implement non-commercial objectives through other alternatives.

- **Country Experience:**
  - **Brazil:** Tripartite controlling structure- Finance, Planning and supervisory Ministry-Project and Investment Priority Setting, problems of conflicting opinions.
  - **Bangladesh:**
    - Redefining the role of the state
    - Broadening SOE ownership
    - Redefining SOE management
Session-1 & 2: Existing Model of Governance of SOEs (Contd…)

• **South Korea:** 1983-1997- Improvement of SOE Governance and selective privatisation; 1997- Anglo-Saxon style corporate governance structure, 1997-2002- Privatisation programme, 2007- Public Entity Management Act
  
  • *Public Entity Classification*: 303 in number. Three types based on various financial and non-financial standards- Public Corporations, Quasi-govermental organizations (117) and Other public entities
  
  • **Centralized model**: Ministry of Strategy and Finance
  
  • *External Governance Reform*: Committee for Management of Public entities(CMPE) - Setting policy directions, especially over PES and executive appointments
  
  • *Internal Governance Reform*: Role of the board of directors & Internal Audit Office, Transparency and Disclosure. Mandated to disclose operational data according to 33 standardized categories of financial and non-financial information on web-sites (ALIO)
Session-1 & 2: Existing Model of Governance of SOEs (Contd...)

South Korea: Policy implications
• Market-based reforms without resorting to full or partial privatization possible
• Role of lead SOE ministry to strive for efficiency-increasing reform measures + constant monitoring
• Align various government policies including competition, regulatory, and industrial policies to provide SOE managements with clear + consistent goal
• Prerequisite: Infrastructure in place including accounting and other managerial information system + parallel reform to increase managerial autonomy + adequate skills to supervise and evaluate + political will to sustain

India:
• Commercial and Managerial mechanism of Governance
• Empowering of Board – Maharatna, Navratna & Miniratna Schemes
• Guidelines for Good Governance
Session-3: Structure of Performance Contracts in SOEs

Africa:
• SOE reform was part of overall public sector reform initiative
• Observations of study on Performance Contracting for 40 Countries on 11 criteria
  • Most countries have implemented only limited aspects
  • Only South Africa, Botswana and Kenya are the front runners (using 9 or more criteria)

Kenya:
• Performance Contracts are implemented through the government body including municipalities, SOEs, government departments, etc.
• Success of the policy was determined by the top level buy in
• “Accountability for results” only trickles down and not bottoms up
• Key innovation – Inter-sectoral negotiations before Intra-sectoral negotiation
• New Constitution – Minister and Permanent Secretaries are appointed on merit to be ratified by National Assembly
Session 3: Structure of Performance Contracts in SOEs

Bhutan

• Holding Company Structure in Druk Holding and Investment Limited – Appointment of BOD by ‘Blue Ribbon Group’

- Identification of Priorities
- Planning and Setting Annual Targets
- Monitoring and Coaching
- Evaluation of Performance
- Recognition and Performance Incentives

• Performance Compact – Financial and Non-Financial indicators; detailing of background, measurement and data source, associated risk and evaluation methodology

• Performance based incentive only if Compact Achievement Point (CAP) is >75%
Sessions 4 & 5: Measurement of the Performance and Progressive Target setting

China:
• Establishment of SASAC to centralize management of SOEs
• 113 central SOEs- Revenue: 3.72 trillion USD, EVA- 9.8% of GDP, Taxes etc-14.9% of fiscal revenue
• Assessment- Annual and tenure assessment
• Indicators- Basic (70%) and classification(30%)
• Classification indicators are dependent on types of SOEs- objective of these is to reduce cost and risk
• Economic Value Added (EVA) from 2010: Encourage central SOEs to emphasise on value creation and maximise shareholder value
• Grading of SOEs in grades from A to E
Sessions 4 & 5: Measurement of the Performance and Progressive Target setting (Cont.....)

South Korea:

- Evaluation of SOE performance, CEO performance, senior Auditor,
- ALIO system- Information disclosure
- Evaluation indicators based on principle of Balanced Evaluation:
  - Quantitative Indicators (65%)- Operational efficiencies-labour & capital productivity, financial budget management, compliance with government policies, Global Competitiveness etc.
  - Non-quantitative (35%)- Strategic Planning, Financial Management, Leadership Qualities, Social Contribution etc.
  - Customer Satisfaction Survey separate
- Two sigma (Standard deviation of past 5 years performance) methodology for assigning targets
- Evaluation by team of Academicians, CPAs. SOEs divided into six grades (from A to E & S) and incentives based on evaluation result
Sessions 4 & 5: Measurement of the Performance and Progressive Target setting (Cont.....)

India:

• Robust Management Information System for target setting
• Need of Strong Research evidence on industry/sector on continuous basis
• Benchmarking to be incorporated
• Reduce number of parameters and move to EVA
• To look at Total Factor Productivity
• Flexibility of 3/5 year parallel MoU targets
• Commitment & Assistance from Government to be mandatorily part of RFD of concerned Ministry
• Mid year review of targets
• Expert agencies to support Task Force
Sessions 4 & 5: Measurement of the Performance and Progressive Target setting (Cont.....)

Observations:
• Linkages of organizational objectives to individual objectives
• Development of coherent and consistent strategy
• Clear mapping of goals to the indicators
• Allocations of proper weightages
• Importance of periodic reviews and monitoring
• To define public interest by clearly identifying short-term and long-term issues
• Active stakeholder participation
• Long-term sustainable goals to be focused
• Transparent system of evaluation
Session 6: Linkage of Performance Outcomes with incentives

India:

• Internalisation of MoU targets
• Different types of non-monetary incentives being implemented.
• Challenges:
  • Bell Curve Approach – group working, context of Public Sector.
  • Different criteria for executives & workers (collective bargaining).
  • One size fits all approach
• Lessons from public sector for private sector (agri-business).
China:

• Remuneration Structure: Annual basic salary + Annual performance salary + Tenure incentive

• Performance Salary: Basic Salary X performance assessment coefficient X Correction coefficient

• Performance assessment coefficient from 0 to 2.

• Correction coefficient is calculated according to the function, scale of operation and internationalization of SOEs (maximum 1.5)

• Rank of E in the annual assessment – No performance salary

• Tenure incentives: Linked to Tenure assessment of Principals of SOEs- Tenure for 3 years. Maximum 30% of Annual salary. No incentive for rank E
Session 6: Linkage of Performance Outcomes with incentives (Contd....)

South Korea:

• Incentive rate: 0% to 250% of the monthly wage depending on evaluation result
• Employee incentives determined by adding the institutional performance bonus and personal incentives
  • E – 0% (Removal of CEO and standing directors)-9.4%
  • D – 0% -16.2%
  • C – 0~100%-39.4%
  • B – 100 ~150%-33.3%
  • A – 150~200%-1.7%
  • S – 200 ~250%-0%
THANK YOU