

# 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:*
    - Scope: Ownership Policies, Nomination to SOE Boards, Performance Monitoring, Review of External Audit Reports & Publication of comprehensive information.
    - 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-governmental 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'



- 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).

# Session 6: Linkage of Performance Outcomes with incentives (Contd....)

## China:

- Remuneration Structure: Annual basic salary + Annual performance salary + Tenure incentive
- Performance Salary:  $\text{Basic Salary} \times \text{performance assessment coefficient} \times \text{Correction coefficient}$
- 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