

# **Organization/Functioning of the Boards of Public Sector Enterprises-Decisions of the Government on the recommendations of the Economic Administration Reforms Commission Report on "Government and Public Enterprises-Top Management and the Boards". (BPE O.M.**



## **CHAPTER II** **PERSONNEL POLICIES**

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

#### **44. DPE/Guidelines/II(b)/10**

**Organization/Functioning of the Boards of Public Sector Enterprises—Decisions of the Government on the recommendations of the Economic Administration Reforms Commission Report on "Government and Public Enterprises—Top Management and the Boards".**

The undersigned is directed to say that the Economic Administration Reforms Commission (EARC) in their report on "Government and Public Enterprises—Top Management and the Boards" have made a number of recommendations regarding the organization and functioning of the Boards of the public sector enterprises. These have been considered by the Government. The recommendations and the decisions of the Government on these recommendations are given below for information and necessary action by the respective administrative Ministries:

#### **(i) Appointment of Chief Executive**

It was noted that the replacement for Chief Executive, due to retire, was in some cases sought at a very late stage causing very often the enterprises to go topless. In this context, the EARC have recommended that the replacement for a Chief Executive due to retire should be found well in advance and inducted as an under-study and that if for any reason the successor is not in position, there should be automatic extension of the term of the existing incumbent until his successor is able to take over. It has now been decided by Government that the enterprises might create, if necessary, a supernumerary post of under-study for a limited period of three months. However, automatic extension of the term of the existing incumbent was not desirable and short-term extensions should only be in exceptional circumstances where there is delay in selection of a new incumbent. It is, therefore, requested that the vacancies that will arise as a result of superannuation or because of non-extension of the tenure of the existing incumbent may kindly be intimated by the respective administrative Ministries to the Public Enterprises Selection Board at least three months in advance. This will enable Public Enterprises Selection Board to initiate recruitment action well in time to find a successor before the vacancy arises.

#### **(ii) Appointment of Part-time Chairman**

Vide BPE's O.M. No. 2(158)/70-BPE(GM) dated 13th October, 1972, the guidelines were issued regarding the composition of Boards of Directors of Public Enterprises. It was mentioned therein that the Board should normally be headed by a Chairman-cum-Managing Director. It was also indicated that there should be no bar to the appointment of a part-time Chairman if in particular cases this course appeared desirable. These guidelines were reiterated in 1982 vide BPE's O.M. No. 2(9)/80-BPE(GM) dated 20th April 1982. The EARC has also recommended that the general policy of appointing a single Chairman-cum-Managing Director should continue. This recommendation has been accepted by the Government.

It has also been decided that the practice of appointing the Secretary of the administrative Ministry as Part-time Chairman of a Public Enterprise, even for short period, should be discouraged.

### **(iii) Role of Government Directors on the Boards of Public Enterprises**

The EARC are of the view that the association of Government officials with the Boards of Public Enterprises can be of advantage as this provides for a liaison role and a channel of communication between Government and the Public Enterprises. They have also emphasized that the dual role of a Government Director should be clearly recognized—as a Director of the company and as a representative of the Government. He should be allowed to function freely and use his own judgement without any formalized briefing by the Ministry before a Board meeting with discretion whether to seek a briefing or make a report. The Government Director should identify himself with the objects and goals of the enterprise, engage in joint thinking on equal terms and not assume a superior status, he should not reserve his position on matters before the Board, however, others on the Board should not expect him to commit the Government in respect of matters which require to be referred to the Government. In all subsequent examination of the Board approved proposals, his role should be mainly elucidatory and he should not sit in judgement over the Board. Reference to the Ministry for approval, sanction etc. should be addressed to the Government representative on the Board whose responsibility should be to process the matter and obtain the necessary Government approval promptly.

The Government have accepted these recommendations and the administrative Ministries may kindly brief the Government Directors on the Boards of their Undertakings suitably.

### **(iv) Number of Government Directors on the Board of Directors**

On the basis of the recommendations of the Administrative Reforms Commission, the Bureau of Public Enterprises vide their O.M. No. 5/23/74-BPE(PESB) dated 3rd February, 1975, had suggested that ordinarily not more than two Government representatives should be appointed on the Boards of Directors of public sector enterprises. The EARC has also emphasized the need for keeping down the number of Government officials on the Boards of public enterprises. They have recommended that number of directorships reflecting special concerns or interests should be minimized and that the possibility of drawing suitable persons from non-Government sources should be considered. However, this does not apply to experts drawn from other public enterprises, which has been strongly recommended. The Government have accepted this recommendation. The administrative Ministries may kindly note for necessary action.

On the question of the representation of the officials of the administrative Ministries on the Board of Directors of public enterprises, the EARC have also recommended that an officer should not have too many directorships on the Boards of public enterprises so that he can do adequate justice to his role as a Government Director. The directorships held by each Joint Secretary could be kept down by having Directors/Deputy Secretaries on the Boards of smaller enterprises. Further, the Ministries having a large number of public enterprises could consider reducing the number of Under Secretaries and perhaps even Deputy Secretaries and providing for an additional Joint Secretary or two to add to efficiency and economy.

Government have noted this recommendation and are of the view that restricting the number of directorships and spreading of the workload of directorships evenly in the administrative Ministries

by putting Directors and Deputy Secretaries on the Boards of small public enterprises was already being followed. However, the administrative Ministries could look into the question of their restructuring as suggested by the EARC.

**(v) Clear Demarcation of Powers of decision-making between the Board and the Government**

The EARC has recommended that there should be clarity in regard to the powers of decision-making of the Board and those, which are reserved for the Government. In this context, they have mentioned that while on paper and in the Articles of Company such clarity exists, in a very large number of cases, informal advice amounting virtually to a directive percolates from the administrative Ministries to the public enterprises. In consequence, the Government Directors on Boards also tend to be used or considered to be acting as channels of informal control by the Ministry. Since functional autonomy of these enterprises is essential for their good performance, there should be no vagueness about the areas on which the Boards can take decisions and those in which it must seek prior Governmental approval.

This recommendation has been accepted by the Government and the administrative Ministries are requested to review the position in this regard.

2. BPE may kindly be kept informed of the action taken in regard to the above decisions of the Government.

**(BPE O.M. No. 18/1/84-GM dated 19th September, 1984)**

\*\*\*