

# Increasing Challenges of Corporate Governance in PSEs



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Corporate Governance besides being an important part of the globalised economy has over the past few years become an important part of the Indian set up as well. Though there is no single model of corporate governance that can be deemed suitable for all, it must be noted that the guiding principles of Corporate Governance are universal and similar in application.

Corporate Governance rests on four fundamental cornerstones of **Fairness, Transparency Accountability and Responsibility**.

To attain fairness, transparency with the right accountability, Public Sector Enterprises (PSEs) have sound corporate governance practices in place. PSEs are seen as the trend setters and with Corporate Governance too, they were required to comply with several rules and regulations under an elaborate system of Parliamentary and governmental control. PSEs have taken several steps and structured initiatives, beyond what was expected of them for the benefit of stakeholders. Strong vigilance initiatives have been taken to promote transparency and integrity in the functioning of PSEs.

Adoption of good Corporate Governance practices has improved the performance of the PSEs. Remarkable resilience and adaptability shown by PSEs to emerge as growth engines of the economic development of the country validates this fact. Their performance during the most difficult years was noteworthy and today they are among the largest and fastest expanding Indian corporates, continually driving growth through increase in turnover and profitability and generating wealth for the Government and the nation as a whole.

While the PSEs have expanded their top line by impressive expansion, the bottomline has also expanded through higher productivity, upgraded technologies and strategic initiatives. However, the new economic environment calls for exploring new markets, forging strategic alliances, acquiring new technologies and establishing joint ventures. This requires conducive policy guidelines including greater empowerment for their effective functioning.

Over the years, a number of measures have been taken by various governments to grant autonomy to PSEs.

There still remains some issues of empowerment and functional autonomy that need to be timely addressed. PSE Boards need to be fully empowered to decide bold strategies and their implementation without day-to-day interference by administrative Ministry. Some of the critical aspects of corporate governance with respect to PSEs are mentioned below:

## **Autonomy**

Enhanced autonomy to the Boards of PSEs should be given for their professional functioning. PSEs have often faced the complex situation where there is benefit on not taking decisions rather than on making decisions. The lack of confidence in PSEs comes from the fact that there is very limited role for them to play in decision making. A policy for selective government intervention in the management of PSEs would help in bringing an element of dynamism in decision making process.

A matter of immense significance and premise of good governance has been separation of roles of Ownership and management in PSEs. All issues of empowerment and accountability revolve around these issues. Many Expert Committees have been recommended an arm's length relationship between PSEs and Government. Public sector reforms like greater autonomy, professional board management, streamlining of regulatory mechanism and level playing field viz-a-viz private sector would facilitate smooth decision making in their commercial operations.

## **Succession Planning**

Succession Planning and grooming dynamic leaders in PSEs require immediate attention as the selection process is a long one. As a consequence, a large number of posts remain vacant for a long time. Under such a situation, an interim arrangement is made to run the company. Temporary arrangements at top lead to loss of efficiency, productivity and lack of stability. There is thus need to reform the process of selection of Directors and CEOs through a robust transparent system so that notification of CEOs is made within a time frame.

## **Appointment of Independent Directors**

Institution of Independent Directors has emerged as corner stone of corporate governance and adds value to the long term sustainability of the organization. However, the general view and negative perception about PSEs is that they are not fulfilling the corporate governance norms of appointing the Independent Directors. However, Independent Directors in PSEs are appointed by the Government and PSEs have no role in their selection process. Hence, it is total injustice to whole PSEs responsible for non compliance of SEBI Regulations for

appointment of Independent Directors or Audit Committee/ Remuneration Committee. The process of appointment of Independent Directors needs to be accelerated in PSEs. For the better functioning of an organization it is necessary induct Directors with relevant experience and know-how of their industry .useful to the corporate. But to perform to their full potential these directors should have the freedom to exercise their intellect and experience. Lack of independence of these directors in PSEs is one of the major issues. The time has come to adopt a more professional, independent and transparent approach in appointment of Independent Directors.

### **Capacity Building**

Capacity building in PSEs is important and has become a game changer in the current market environment. Capacity Building is critical to the success of an organization. Emphasis has to be laid on capacity building for strengthening the skills, competencies and leadership abilities of the executives to help them confront challenges and achieve sustainable results.

A real challenge for any company including PSEs, is to fill knowledge gap at the top level, both the board as well as senior management. Capacity building of the Board Members and Senior Managers and to continuously keep preparing them for dealing with emerging challenges, is of utmost importance for a company to sustain its competitiveness and growth. Conscious efforts are required to fill knowledge gaps (through training and development programmes), otherwise, it may become a huge lacuna for the directors in effectively discharging their duties.

Moreover, Public Sector Boards have a unique but complex structure of **three different classes of Directors – Functional Directors, Government nominee Directors and Independent Directors**. They come with different qualifications, experience, working environment or background/areas. Therefore, all the three classes need induction training particularly in the area of Board's role in strengthening corporate governance and performance management.

SCOPE has been organizing Conclaves on Corporate Governance under the aegis of DPE and in association with Academy of Corporate Governance. Through these programmes SCOPE has provided an opportunity to Chief Executives, Directors, potential directors to become well versed with corporate governance practices and related aspects.

### **Risk Management**

Creating an enabling risk management framework is a challenge in today's business environment. The Companies Act 2013 emphasises the requirement of Risk Management Policy for the company including identification of risks which can threaten the existence of a company. Although many PSEs have created an enabling risk management framework, still there is a huge scope for creating a value driven risk management

process to support their strategic and business decisions. Developing a robust risk governance structure, creating a risk awareness culture, developing effective risk management specific skills, and organizing skill adequacy programmes are essential for sustaining and gaining a competitive edge.

### **Corporate Social Responsibility**

Corporate Social Responsibility also forms a pivotal part of Corporate Governance as enhancement of value and betterment of society has been a major task undertaken by PSEs over the last few years. Given the massive fund being earmarked for CSR initiatives and likely problems of effective and judicious implementation, the public sector would like a convergence approach towards all CSR initiatives. Stringent mechanisms for selection of agencies for implementation of CSR activities and social audit to ensure proper utilization of CSR funds would ensure meeting the CSR goals.

### **Developing Women Leaders**

Leadership for women, has become an important aspect of PSEs with the growing recognition about the need for placing women in positions which contribute strategically more value for the organization and in line with their aspirations and capabilities rather than positioning them on perception.

The Companies Act 2013 provides for atleast one Women Director on the Board of every listed company. But this has been a challenge for most of the PSEs as many companies have yet to appoint a Women Director on their respective boards. The fact remains that there is dearth of sufficient requisite number of women executives to occupy the board level positions. PSEs need to work towards training and succession planning of women employees in their organisations. For this purpose, it is important that beyond their technical and professional expertise, they need to be trained in strategic and international business management. They need to create a system that will nurture leadership potential and focus on their competency building. Rather than looking at hiring women from outside the company it would be best if companies are equipped enough with deserving female candidates.

### **Clear Ownership Policy**

Even after over six decades of existence, PSEs do not have a well documented ownership policy. A well documented Ownership policy with clear segregation of role and responsibility with regard to ownership, control and management helps government to avoid the usual pitfalls of passive ownership and excessive interferences emanating from multiple and contradictory objectives. It defines the ownership function of State and helps in minimizing their control and interference in day-to-day commercial decision making, thereby providing greater powers to Boards. In this regard OECD has also opined that the government should develop and issue ownership

policy which defines the overall objective of State Ownership, the States Role in Corporate Governance & PSEs and how it will implement its ownership policy. Therefore, there is need to evolve a well documented ownership policy. Public sector has become more relevant than ever before. Its presence will remain

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imperative for a long time to continue to play a key role in the socioeconomic growth of the country. The changing perceptibility of the Indian public sector has made a lucrative employer and among the best places to work in the country.

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