

Sovereign Holding Company for Public Sector Enterprises



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The role and contribution of Public Sector Enterprises (PSEs) in the growth story of Indian economy cannot be understated. Their significant contribution to GDP, employment generation and market capitalization is well established today. PSEs are leaders with significant market share in key sectors of the economy. They have displayed considerable strength

in meeting the development needs of the country. From time to time, various reform measures were taken to enhance the competitiveness of PSEs. During the year 1991, government announced its decision to dilute its shareholding in certain PSEs. With time a shift in Governments' approach towards disinvestment has been witnessed. Besides the traditional modes of strategic sale, minority stake sale etc., new modules of disinvestment were explored including sale of share to employees, ETFs etc. In recent times, the government has announced some key decisions of creating consolidated giants in various sectors so as to take advantage of economies of scale and greater market penetration thereby creating a niche for oneself.

This started with creation of an international oil conglomerate by consolidating existing oil PSEs (merging HPCL with ONGC) so as to provide better market opportunities, undertake larger projects and enable economies of scale. Subsequently, SBI announced merger of its 5 subsidiaries within itself, bringing the intent of the government into action. Further, as per recent news reports, government is considering expanding scope of consolidation of PSEs in various sectors including defence, construction and consultancy. Proposal is underway to consolidate 18 consulting firms operating in the PSE space into a unified company so as to provide advisory services under one roof like that of private consulting firms.

All of the above seems to move in line with the good practices of corporate governance. In 2015, OECD laid down guiding principles for State Owned Enterprises (SOEs) and their States (i.e. the government) so as to maintain diligent levels of corporate governance standards. One of the key guiding principles of the OECD guidelines is that the State or the government should be

an active and an informed owner thereby ensuring professional and effective governance of SOEs in a transparent and accountable manner. This can be achieved by way of developing a well defined ownership policy wherein there is clarity and objectivity in role and responsibility of the owner. Exercise of ownership rights within the ambit of the defined policy would help in minimizing control and interference of government in day-to-day commercial decision making of SOEs, thereby enhancing autonomy of the SOEs.

A well defined ownership policy shall ensure efficient functioning of the SOEs, however in order to ensure that ownership rights are exercised in the most effective and professional manner it is imperative that such rights are vested into an apex body so as to avoid any duplication of instructions thereby creating a complex hierarchy leading to delay in decision making. The said agency (also known as the Ownership Entity) shall be responsible for all coordination between the government (being the owner) and PSEs body and hence, must possess competencies to carry out its role effectively.

International Practices

World over, many initiatives have been taken to improve the governance of SOEs. The trend has been to create a Sovereign Wealth Fund for investment in domestic as well as international enterprises.

Singapore formed Temasek to separate commercial management of SOEs from that of policy decision making. Key mandate of Temasek is to undertake management of government stake on a commercial basis thereby allowing Ministry of Finance, Singapore to focus on policymaking and governance.

Malaysia incorporated Khazanah in 1993 to undertake an expanded and more active investment approach including enhancing the performance of existing SOEs and also seek new opportunities across geographies for the SOEs.

China formed SASAC in 2003 so as to undertake SOE related management. Role and responsibility of SASAC extends from strategic decision making to leadership and implementation decisions.

Bhutan followed suite and formed Druk Holdings and Investments Limited in 2007 the purpose of which is to hold and manage the existing and future investments of the Royal Government of Bhutan for the long term benefit of the people. The purpose was also to improve corporate governance and subsequently the performance of SOEs.

Indonesia also works on a slight variant of centralised ownership model where Government of Indonesia exercises ownership through the Ministry of State Owned Enterprises. Similarly, South Korea works on a modified form of agency model wherein Ministry of Strategy and

Finance is responsible for a wide range of work including oversight of information disclosure practices by public Institutions, review of mid long term management plans, performance evaluation etc. Kazakhstan also operates an agency model wherein the Government exerts its Ownership role through a centralised fund namely Samruk-Kazyna JSC.

Probable Governance Model

Presently, India has a coordinated agency model wherein the Government of India holds (at least) 51% or more of the shareholding in PSEs. In turn, the Government entrusts the administrative ministries to coordinate and operationally oversee the PSEs. Though, over a period of time reforms have been undertaken in order to provide greater autonomy in decision making to the PSEs, however, PSEs are still subjected to a heterogeneous matrix of accountability checks and balances which includes CVC, CAGG, CIC, CBI, CCI etc.

Hence, it is high time that steps are taken to not only converge the heterogeneous structure of conformance into one but also to move towards a flatter structure for PSEs by creating a Sovereign Holding Company so as to consolidate multiple synergic PSEs into a single sector and exercising ownership rights through a well defined and documented ownership policy. This would not only making the governance simpler and measurable but also take advantage of economies of scale, greater negotiating powers, higher value of assets etc.

A selective mix can be explored for Indian Sovereign Holding Company who in turn, shall also be custodian of Sovereign Wealth Fund. A probable model for a Sovereign Holding could be drafted as a three-tier structure and a

combination of centralised agency and coordinated agency model wherein at the top is the Apex Sovereign Holding Company under the Prime Minister or the Finance Minister functioning through a committee comprising of experts, professionals, academicians, researchers, government, SCOPE etc. Five/Six sector specific sub-holding companies will be the second stage which entails responsibility for vision and strategy of related PSEs.

Key role of the said apex body may include coordinating between the government and the sub-holding companies so as to ensure overall satisfactory performance of the PSEs, Sovereign Wealth Fund under Apex Committee shall invest in domestic avenues as well as outside the country.

Above model is only recommendatory and a rough sketch of how to simplify the governing structure of PSEs and align the hierarchy to international standards so as to ensure best practices of corporate governance for global competitiveness.

Way forward

It is high time for a radical reform to structure the governance of PSEs through a consolidated Holding Company. Centralising the ownership rights into a singular agency would not only facilitate the PSEs in improving and professionalising their working but would also help the Government to have better returns. Along with autonomy to PSEs, it would also help in providing measurable objectivity to the ownership of the government by ensuring that the tasks outlined in the ownership policy are achieved thereby paving the path for PSEs to achieve financial success along with increasing their global presence and competitiveness.
