

# Indian Public Sector – Meeting the Benchmarks of Corporate Governance in the New Normal



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Good Corporate Governance has emerged as an important tool for the companies to become competitive, efficient and a successful business corporates. It attempts to put in place system of adequate checks and balances for the improved corporate performance built on the principles of transparency, accountability, integrity and responsibility.

Over time, corporate governance has become an integral component to accomplish strategic goals of the company, strengthen investor's confidence and to maximize long-term shareholder value and stakeholder's wealth. It has been well established that corporate governance not only facilitates effective & efficient system but also promotes professional decision making while ensuring high level of business ethics.

Companies adhering to good corporate governance practices are seen as highly regarded companies by its various stakeholders including competitors thereby playing an important role in building the brand and public image of the company.

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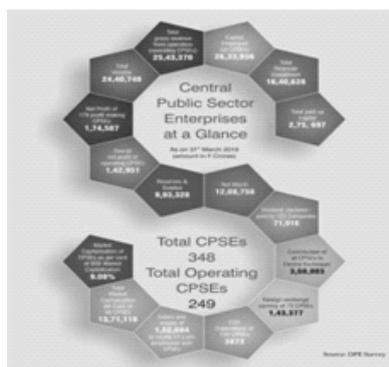
However, with the advent of the pandemic and increasing complexity of transactions and working norms, the benchmarks of corporate governance has undergone a comprehensive shift making it imperative for the corporates to adapt to the changes to meet the new benchmarks for meeting the governance standards.

The new environment is characterized by increasingly complex set of challenges which necessitated the need to pay more attention to the health and wellbeing of people while embracing agile business practices, focusing on maximization of stakeholder's wealth and meeting the standards of commercial prudence. These have brought to the fore new challenges of corporate governance and performance which include adopting new strategies, alter pre-covid business models, forging new alliances, embracing technology and innovation, build IT resilience, cost management, making it imperative for organizations to adopt robust corporate governance practices besides crafting strategies and plans to respond to the present challenges

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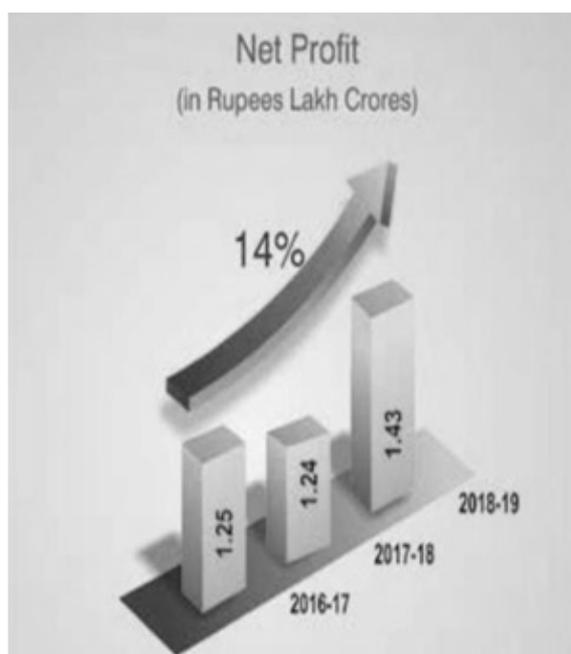
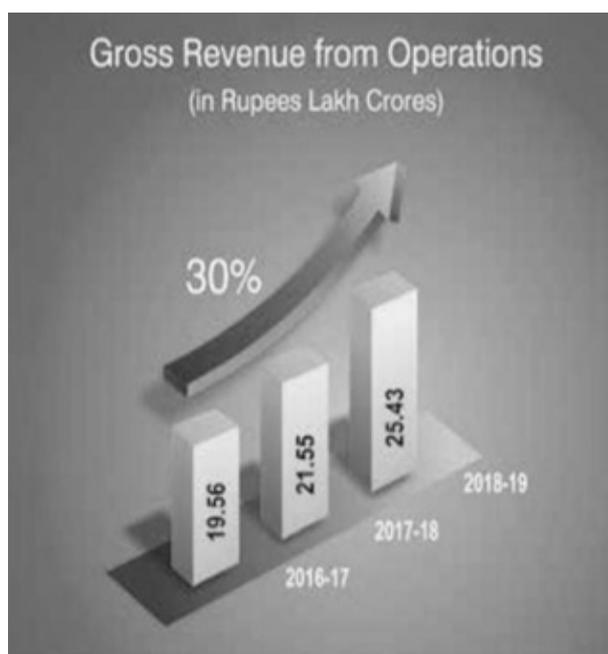
## Public Sector Enterprises and Good Governance practices

Public Sector Enterprises (PSEs) have supplemented the growth of the Indian economy through transformational changes. Their sustained contribution to the Indian economy can neither be denied nor underestimated. With their prowess, performance and resilience shown during the challenging times of global recession, they have emerged stronger and competitive.



It is a well-established fact that since inception, PSEs have been following good governance practices. In view of the fact that the Government of India is the majority stakeholder in the PSEs, they come under the elaborate system of control like the Comptroller and Auditor General of India, Central Vigilance Commission, and the Right to Information Act etc. Besides, listed PSEs are governed by prevailing SEBI norms.

There can be no two opinions that these checks and balances have assured highest level of transparency in their functioning. In fact, these have contributed to greater credibility and investor's confidence enjoyed by PSEs. While exhibiting growth in revenue and profit, year after year, they have been making impressive contribution to government's exchequer by way of dividend, taxes etc. country.



Source: Public Enterprises Survey 2018-19, DPE

Besides operational efficiency, PSEs have also displayed a focussed approach towards achieving commercial viability which is reflected in the fact that out of 249 operating PSEs, 71% are profit making as against 28% loss making which is in contradiction to the 'popular belief' that PSEs are a drain on national resources. In fact, they are net contributor to the economy, contributing around 13% to country's GDP and over 3.68 lakh crore rupees to Indian exchequer by way of taxes, duties and dividend.

PSEs have been a strong force in keeping the wheel of economy moving forward in times of needs. At this juncture, understanding the requirement, Public Sector geared itself not only to realign with the new environment but also to play a decisive role for the country. Many of the public sector undertakings have come forward to lend a helping hand during the crisis, through its philanthropic activities around the country. They have been undertaking relief measures ensuring safety, supplying essential items round the clock, and support to the people in distress. Rising to the occasion, they took innumerable measures to supplement the efforts of the government and support the country which has been well acknowledged.

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However, changing policy environment, dynamic business environment, compliance to statutory requirements, coupled with need for developing new benchmarks of corporate excellence and more enlightened investors led to more challenging corporate governance environment. Some of these are discussed in following paras.

#### **Leadership Development and Succession Planning**

Nurturing Future Leadership in PSEs and building strong leadership pipeline is important for the efficient functioning and global competitiveness of the companies. Leadership at the top helps the companies to navigate through challenging environment and transform them into value creating organisations. Many a times delay in selection process hampers decision making and efficient running of enterprise. A robust, time bound and transparent process of selection leads to continuity at top and achieve desire business goals. Hence this aspect needs special attention from all quarters.

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Public Enterprises Selection Board (PESB) recently initiated exercise on this front and held wide stakeholders 'consultation on its 'Suggested Reforms Proposal' regarding selection of personnel for Board level posts in CPSEs. SCOPE as an apex body of PSEs submitted its Recommendations to the PESB based on the views of PSEs and inputs provided by SCOPE Board Committee constituted for the purpose.

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### **Board Diversity and Balancing Board Skills**

The Board is the top management organ responsible for implementing the vision and mission of an enterprise. It guides and ensures the efficient functioning of the company conforming to the requisites of social responsibility, environment and ecological balance while bringing harmony to the various stakeholders in the process. The fast-changing environment and technology has made it imperative for the Boards of the enterprises to have professionals with right skill sets, domain expertise, attributes, and competencies to steer the company successfully. The Board of Directors should therefore possess necessary skills and competencies appropriate to the nature of their industry and business to bring greater objectivity and professionalism. To ensure that the board has requisite skill-sets, appropriate training and capacity building programs need to be developed which conform to the global standards and changing business dynamics.

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Further, diversity on the Boards is of utmost importance as it expands knowledge base, brings divergent views and experience, accelerate decision making process that go into a company's decision-making, and improves corporate culture. Evidences/studies have shown there is a correlation between women at top management and performance of the company. While, PSEs have adopted best practices to ensure equal opportunities to women for leadership roles, current number shows low representation at senior levels. As PSEs prepare comprehensive plans to build capacities of women, it would be equally important for women on their part to demonstrate grit, passion and embrace more challenging assignments.

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### **Corporate Social Responsibility**

Corporate Social Responsibility (CSR) is an inseparable part of Corporate Governance as societal well-being is one of the most essential ingredients of Corporate Governance. The current environment has once again underlined the fact that corporate should be sensitive to the needs of the society. Companies are an important segment of the society and their growth depends on the health of the society. Therefore, CSR should become essential part that all corporates must take on priority.

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PSEs as good corporate citizen stand out for their strong commitment towards CSR. Since inception, Public Sector Enterprises have assigned a high priority to the ideals of CSR and rendered a yeoman service to meet the basic needs of citizens like literacy enhancement, educational aids, providing drinking water, community development and infrastructure, environment protection, health care and family welfare etc.

Even during health crisis due to COVID, PSEs pioneered in taking the government's measures forward to contain the spread of the pandemic and offered unwavering support to the nation. They contributed at all fronts be it social, medical or contributing to PM's CARES Fund.

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However, given the growing role of CSR in building a resilient society, recently, Ministry of Corporate Affairs (MCA) has also made several amendments in the legal framework of the Companies Act 2013. One of the key changes pertains to robust and specific disclosures for CSR plans of the company and also mandating registration of implementing agencies of CSR activities with MCA. This in a large should ensure that CSR is being undertaken as a planned and targeted activity than charity.

While the path has been laid by MCA, the responsibility also devolves on the PSEs to ensure optimum utilisation of CSR funds allocated. For this, organisations can look into innovative ways of selecting identifying projects, implementing agencies and also various forms of audit to ensure optimal utilisation of CSR funds.

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**Embracing technology**

PSEs across the country are under transformation by imbibing best global practices, agile and scalable technology intervention and embedding innovation as an integral part of their journey. However, post pandemic world necessitates that PSEs should become a lead adopter of technology to achieve desired goals. In this regard, a welcome move would be greater budget allocation for innovation and technological enablement in PSUs. This can help lay a strong foundation for a better tomorrow, making us future ready. It has become all the more necessary as public sector companies are now foraying in global arenas.

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**Cyber Security**

Another key challenge relates to cyber threat especially in this digital world where most transactions and business operations have been digitized. Given the critical infrastructure category for most PSEs and their role in country’s development, the threat landscape is mammoth.

They must endeavour to protect Critical Information & Critical Information infrastructure from unauthorized access, use, disclosure, modification and disposal, whether intentional or unintentional, and maintain Confidentiality, Integrity and Availability of Information related to organization’s critical processes & systems together with sensitive/ personal information of employees and other related third parties. of the employees. This would ensure business continuity through systemic reduction of information security risks in all spheres.

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**Way Forward - bringing sustenance for a New India**

New India aims at reducing the rural and urban divide and seeks parity in all spheres with an ultimate goal of developing a sustainable society aiming at nurturing balance and minimizing environment and social contamination. This can be achieved only if corporates adopt the evolving benchmarks of corporate governance.

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True to this, PSEs have robust corporate governance practices in place. However, any corporate governance initiative should be steadily upgraded by evolving innovative approaches, converting opportunities into achievements and providing the right framework and incentives to foster healthy growth of the sector.

This will ensure effective realization of corporate goals and build the public trust and the confidence of all the stakeholders in the public sector.