



Research Paper

Understanding the Employee Perspective on Corporate Governance Practices in the Public Sector Units in India

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ABSTRACT

The debate on corporate governance in the public sector is of somewhat recent origin but much of what governments do in delivering public services involves running major businesses. Governments try to achieve through public sector a complicated array of political, social and economic objectives. Corporate governance in the public sector involves much more complexity because it raises significant questions about government monopoly, ownership concentration, regulatory capture, redistribution. This study is an attempt to explore the issues and challenges of corporate governance and provide a point of view on the potential improvement levers. This study is focussed on opinions of managers of PSUs, with a view to understand how they have responded to changed market conditions post liberalization. Little is known about this aspect in a formal and statistically reliable manner. This study is motivated by the belief that true change can occur when a critical mass of top and middle level managers internalises a particular form of change and push it through.

The attempt is to categorize and gain agreement on the pillars for virtuous corporate governance without being overwhelmed by the possible debates or operative barriers. The survey is planned to cover a limited number of managers and the analysis would be beneficial in our understanding governance changes in PSUs.

KEYWORDS: Governance, Corporate, Public Sector, Accountability, Transparency, India

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I. CRITICALITY OF GOOD GOVERNANCE IN PUBLIC SECTOR UNITS

Cliché though it sounds, financial scandals the world over, highlight the ever-growing importance of corporate governance. All scandals assure a focus on governance issues, particularly accountability, disclosure, transparency, control and accountability, and to the utmost form of board structure that may be capable of preventing such scandals occurring in future. Governance therefore is the key issue today. It is essential requirement for socio-economic development for overall inclusive growth.

For this inclusive approach the model of corporate governance should be such that it promotes the interests of all the stakeholders, namely, the employees, the customers, the lenders, the community and the shareholders. But today the concept of corporate governance has taken a new dimension and includes the execution of finest administration procedures, amenability of law in correct spirit and devotion to ethical values for good management and distribution of prosperity and discharge of social responsibility for inclusive and sustainable development of all the stakeholders and shareholders equally. The trade-offs for public sector are increasingly important in the context of liberalization where government is expected to relinquish its control over a wide range of public sector activities.

The clamour for the privatization of PEs has gained ground in the last decade, although its success has been episodic, marked by gradualism throughout 1990s and acceleration in more recent years. But it is not easy for the state to simply give up control of the PE sector because of its major role as an instrument of redistribution, especially for countries undergoing adjustments and restructuring. Indeed, given this institutional vacillation, there are economic reasons (in addition to political reasons) for government control. The relationship between corporate governance reforms and recession is cyclical, with waves of restructuring and augmented directive occurring mostly during or after the periods of downturn, corporate failure and re-examination of the practicability of regulatory arrangements. During long periods of expansion and growth, both companies and shareholders are completely occupied by generation of wealth rather than in ensuring that governance mechanisms are in place. This leads to diminishing of active interest in governance and regulation.

The global financial crisis and problems of privatization proves beyond a doubt that we are living in a global age and has brought to the fore the relevance of a sound corporate governance system as an essential element of effective risk-management for the companies and for the nation at large.

Though not the only cause, governance failings are significant where boards or management fail to comprehend and manage peril and endure perverse incentives. The crisis underscores the need to advance better approaches to corporate governance, transparent functioning and risk management, in addition to the significance of social responsibility in the financial sector; the role that corporate governance can and should play is in restoring trust. Business ethics and corporate governance have become key factors swaying venture decisions and defining the flows of capital worldwide. In part, this is the result of recent scandals however in a more positive sense; the rising demand for good governance also flows from the lessons learned about how to generate rapid and stable economic growth through public and private institutions.

From this perspective, the emphasis on anti-corruption and good governance is based both in moral standards as well utilitarian considerations of improved market performance. While ethics and an ethical business culture are at the core of the corporate governance framework and on many overlaps each other in principle and spirit, theoretically two are approached somewhat differently.

CORPORATE GOVERNANCE IN PUBLIC SECTOR ORGANISATIONS IN INDIA

The survey was part of post doctorate research conducted to increase an understanding into the state of corporate governance in public sector. The poll involved 50 respondents comprising senior manager and managers in finance, planning and development and vigilance departments of some PSUs in India. Corporate office employees besides company secretary and audit department were also provided with questionnaires, who were asked about the journey, experience and the outlook on corporate governance in PSUs in particular and India at large. The aim was to explore the issues and challenges of corporate governance in Public Sector Units of India.

It is observed that notwithstanding many studies and efforts, the government has no clear policy on which objectives commercial or social public enterprises. Empirical findings have indicated that budgetary support and off-budget subsidies for PEs, as well as price fixing based on political and social considerations, often tend to distort costs, making it problematic to decipher real commercial performance.

Frequently, it is the shareholders themselves, including government, who pay the price. For instance, a forced takeover of a sick company or a product line or a dictated pricing formula or control would impinge on the shareholder value (Reddy, 2004). Ghuman (1999) observes, there is a close link between government change and the type and aims of specific reforms, with each phase co-existing with the tenure of the government. Thus, a clear, stable and conducive macro-policy environment is the felt need of the hour.

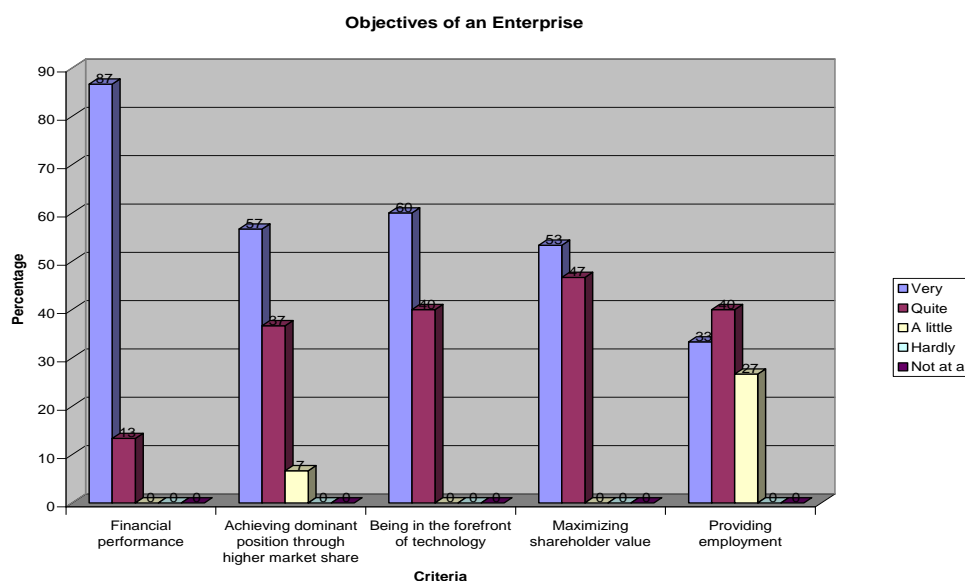
PEs embodies national assets that should not be subjected to a particular political party's policies and programs. Consequently, the government must come out with a policy paper that includes among others (a) areas in which the public sector enterprises would be allowed to function based on commercial grounds, (b) laying down clearly the social objectives and functions of PEs, (c) establishing clearly the rules for privatization, and (d) ensuring fair treatment of PE shareholders and stakeholders.

RESPONSES TO QUESTIONNAIRE AND ANALYSIS

a) Objectives of an enterprise

Objectives of an enterprise go far beyond those that are actually stated. How important are the following objectives in actual practice? Figure 1 Objectives of an enterprise / The result of the survey indicates that the change in objective statement of PSU's whereby the continued ambiguity in the set of objectives of public enterprises seems to have been resolved by the government now highlighting and giving equal primacy to financial objectives within a framework of product market targets, and other values/social commitments.

Figure 1 Objectives of an enterprise



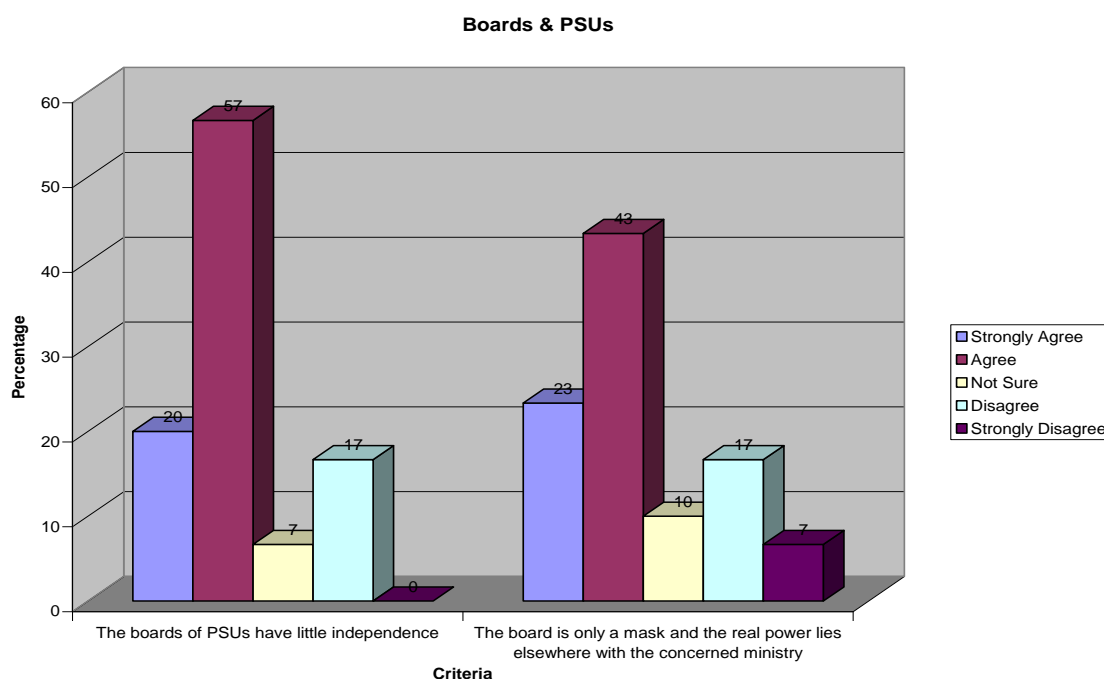
The survey clearly indicates that the financial performance is the key objective of the company with 97% managers considering it to be very central goal for the company. The next noteworthy objective is being forefront in technology with 90% of the respondents giving it a high priority among other objectives of company. Achieving dominant position in market was next key objective of the company with 84% voting for it as high and very important goal of the company.

Maximising shareholder value and providing employment remain little less of priority. Due to change economic conditions and globalisation, the ambiguity seizes to continue in both policy statements as well as actions. Consequently, public enterprises which earlier had confusion on their market segments, value-delivery, levels and extent of social responsibility is getting cleared now especially in commercially feasible and viable organisations. A clearer policy statement by the government and more autonomy will further bring about the essential difference between the non-negotiable explicit financial objectives/priorities and the set of values and preferences inherent in the mission of the organization, whether obvious or implied.

b) Boards and PSU's

Two questions posed before the employees of PSUs were regarding the level of independence of boards and where does the real power reside in PSU. Is it with the BoD or the ministry? There is strong opinion in the company that Boards of PSU's lack adequate autonomy. The survey result indicates that 20% strongly agree and 57% agree to the lack of independence at board level for PSUs making it the total of 77% in agreement of the statement. Regarding the power residing with government ministry there is somewhat a mixed result.

Figure 2 Boards and PSU's



Nearly 43% agreed to the statement, 23% strongly agreed to and 10% being unsure and 17% disagreed with the statement. Thereby we can say 56% do believe that real power lies outside the board and board is just a mask with key decisions being taken at concerned ministry. Figure 2 Boards and PSU's / There has been consistent demand for adherence to some principles formulated to disentangle boards from excessive control of ministries. The demand for reforms includes that the part time non-official directors should at least constitute one-third of the board. The responsibility for filling vacancies has been vested with the Administrative Ministries, the Department of Public Enterprises and the Public Enterprises Selection Board — the board itself has little power in board appointments, renewal or succession planning.

The compensation for full time functional directors and the Executive Chairman is as per the rules delivered by the Department of Public Enterprises while the non-official part time directors are allowed a sitting fee per meeting, which is a nominal amount. Some broad suggestions regarding reforms in Boards which came out during the survey were as follows: All public sector units must advance a best practice guide for board procedures, practices, conduct, dealings and arrangements which comprise, inter-alia, the profile of board positions; staffing, selection, training, processes; holding of board meetings; dealing with conflict of interests, exposes, bookkeeping and reporting necessities; appraising board members; payment and re-nomination.

Governments should guarantee that individuals who are or were members of parliament or legislative assemblies be excepted from occupying offices of chairman or memberships of the governing board of a public enterprise, thus encompassing the spirit followed in the case of central public undertakings. The body exercising the voting rights should vigorously create, structure, advance and renew the governing board warranting utmost abilities of direction, innovativeness, honesty and decision. The body must be staffed with professionals who are well trained in law, finance and general management. It is suggested that one-quarter of the Board must be drawn from experts, academicians, professionals and technocrats. The body should build data and knowledge of various standards, situations, board dynamics, the internal processes of briefing, de-briefing, monitoring and evaluation. It should have sound mechanisms of managing the performance of its representative/nominees.

It is recommended that each PSU Board has a minimum of 8 and a maximum of 15 directors at any point in time and 50% of this number be from the functional directors plus the Chairman and Managing Director. This implies a minimum of four functional directors including the Chairman and Managing Director. If there is any vacancy due to the number of functional directors not adding up to 50%, then a representative from the employee and consumer segments must be co-opted in that priority to take up the position as a part-time Director. This recommendation is with the hope that undue delays are prevented in the procedure of appointing functional Directors.

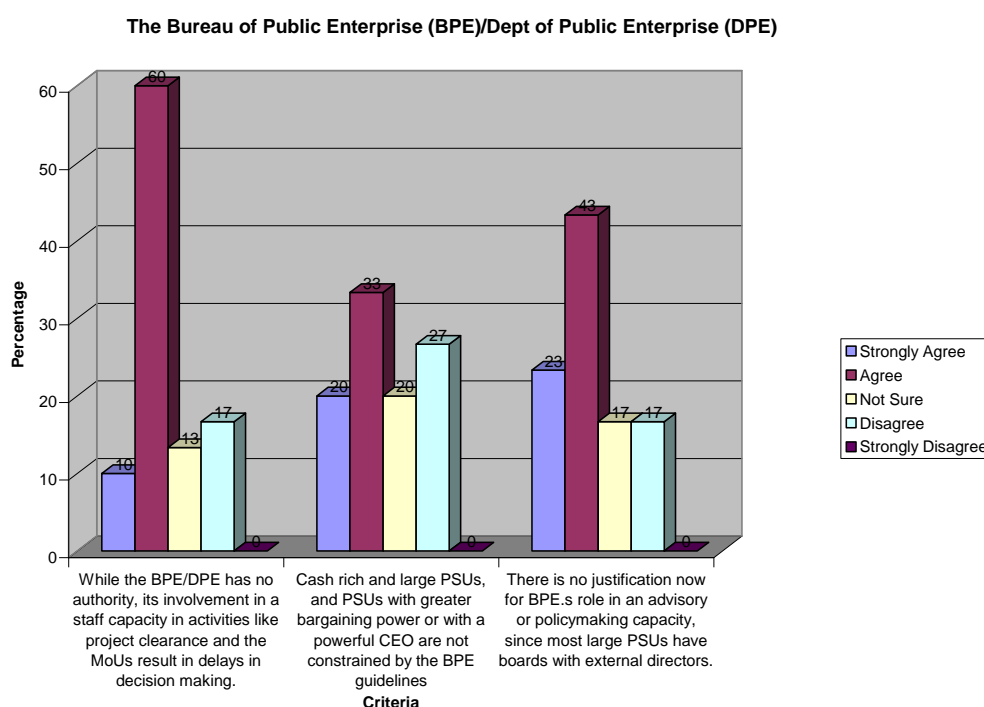
c) Department of Public Enterprise DPE and PSU

The Department of Public Enterprise was set-up with laudable objectives, which appeared strategic at the time. Most objectives, even on reckoning the recommendations for strengthening the DPE role and the

current process of re-engineering the circulars and guidelines appear incongruous. This is chiefly because of the need for firm-specific approaches as against unitary designs and also the ineffectiveness of departmental governance. The command-and-control approach which had much validity in the early years after Independence is no longer suitable to the induced as there are diversities and complexities in the nature of ownership, character of differentiated competition in the market place and other related issues. Thus, the Department of Public Enterprises must revisit its role.

It is recommended that the Department of Public Enterprises recraft its mission and role to that of a competitive consultancy organisation offering value-added services to all varieties of PSU and in the process sever all its traditional relationships with PSU's. This would seem drastic but administrative reform which is connected with economic adjustments calls for, among others, restructuring and 'institutionalising'/corporatisation of some services. Nations such as Australia and U.K have done this successfully years ago and we can also learn and adopt some of these reforms Figure 3 Department of Public Enterprise DPE and PSU / The involvement of Department of Public Enterprise involvement in staff capacity does causes unnecessary delays. Nearly 60% agreed to the statement while 13% were not too sure of the exact relationship and the level of delay caused during the clearance of a project from DPE.

Figure 3 Department of Public Enterprise DPE and PSU



The survey gave varied and divided result on the question of bargaining power of CEO vis -a -vis DPE. Nearly 27% disagreed with the statement that cash rich PSUs have more bargaining power compared to cash constrained PSUs and 20% were unsure of the equation which existed between the cash rich company's CEO and the DPE.

20% strongly agreed and 33% agreed that profitability criterion and strong CEO's can sometime help in changing the equation between the DPE and PSU. The possible reason for somewhat divided result could be that the managers are unaware of the dealing which takes place at CEO's level and the DPE therefore could not comment convincingly as indicated in the result. Regarding DPE role as advisor 23% strongly agreed and 43% agreed there was no justification for DPE advisory role since boards have external directors to provide expertise. 17% remained unsure and 17% disagreed. So, 66% believed that there was little justification for continuous of traditional role of DPE in times of evolving diversities and complexities in the nature of ownership, nature of differentiated competition in the market place and other related issues.

However, the discrepancy can be answered due to the lack of knowledge among employees regarding the role and functions which are being performed by DPE.

d) The Auditor and the PSU

When it comes to PSUs there is a perception that in certain areas, notably audit and accounts, they are over-governed thanks to the oversight roles being played by the Comptroller and Auditor General (CAG) and

the Central Vigilance Committee (CVC). Yet recent CAG reports have listed several areas of deficiencies relating to accounting, audit and compliance matters. Where do the improvement levers lie? What are your impressions about the appraisal of companies by the Auditor? All listed public sector undertakings are required to follow the Securities and Exchange Board of India's requirement of corporate governance such as the constitution of Audit Committee with a majority of independent directors and at least one director with accounting knowledge; disclosure of financial performance/results of the listed companies in their web-site or in the web-site of the stock exchange on which the company is listed; separation of the position of Chairman from the chief executive failing which more number of independent directors are to be inducted; and to give in the Annual Report a separate section on corporate governance with details on compliance, non-compliance (with reasons) of the mandatory requirements along with compliance certificate from the auditors.

Figure 4 The Auditor and the PSU

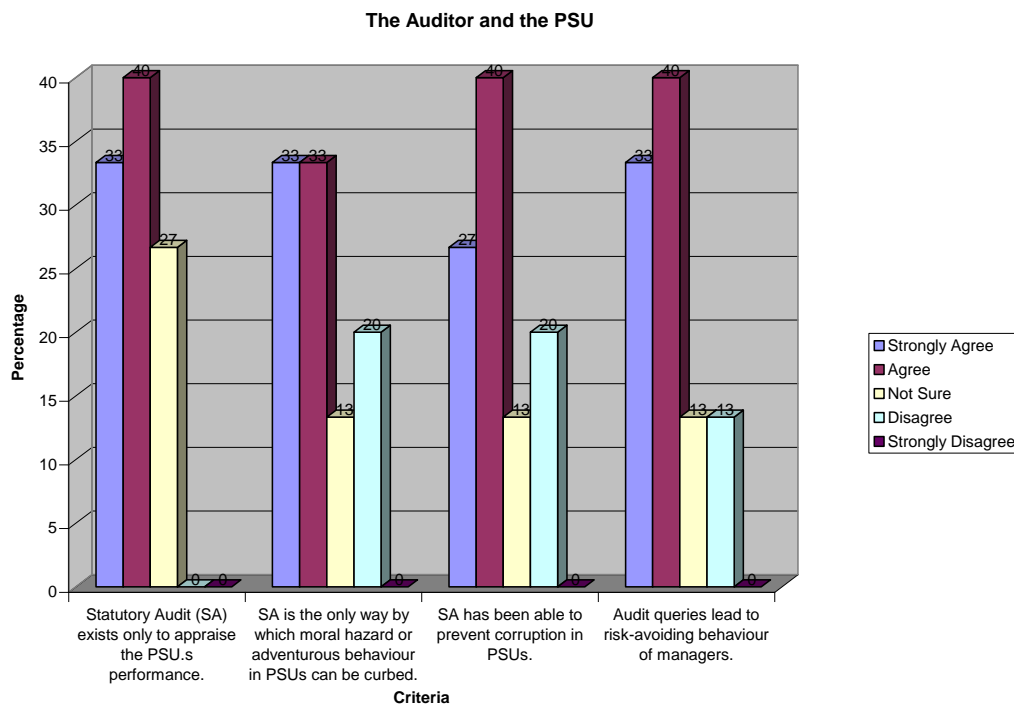


Figure 4 The Auditor and the PSU / The perception regarding the role of Statutory Auditors (SA) is that their primary role is to transparently and accurately appraise about PSU performance to government. Nearly 33% strongly agreed with the statement and 40% agreed to the role of SA. More than 65% strongly agreed and agreed (combined together) that Statutory Auditing is an effective way to check the adventurous behaviour and excessive risk taking in PSU's. 13% were unsure and 30% disagreed. Disagreement could be a reflection of a belief in other instruments and structures also fulfil the role as an effective curb/check on over-adventurism. There is no doubt other instruments within the business model propel economically wise decisions and risk avoidance. Market mechanism and competitiveness often ensures risk management.

CAG reports have often indicted PSUs for deficiencies in financial reporting including within audit reports and disclosures. Some of these deficiencies have raised questions with respect to the worth of audits within PSUs. The audit committee of PSUs should have explicit powers in monitoring audit quality and ensuring that audit fees are commensurate with the level of audit risk and effort levels involved in undertaking the PSU audits. As recommended within the voluntary guidelines on corporate governance, PSUs should consider adopting a risk-based approach to internal audits and supplementing in house internal audit functions with external service providers in areas requiring specialist skill level hires, executive compensation, performance management systems and projects, PSU management and boards should have complete autonomy. Barring policy matters and matters of national interest and the government should minimise its involvement. Several experts on PSU's have criticised the role of Comptroller and Audit General (CAG) as an additional burden. Whereas, the Comptroller and Audit General is an important instrument of public accountability, it works to the detriment of several normal rights of enterprises.

It is recommended elsewhere that the Comptroller and Audit General must get involved through a different mechanism to ensure diligence in management and restructure the manner in which it is required to advise on the selection of chartered accountants, issue directions under section 619(3) of the Companies Act,

prepare special reports, affirm, or comment upon or supplement the audit report prepared by the Chartered Accountants as provided under section 619(4) of the Companies Act. PSU's have complained that this double check is not suffered by the private sector and also that the annual general meetings are delayed, among other reasons, on account of the Comptroller and Audit General audit. More importantly, despite the recent castigation of some auditing firms, a re-certification by the Comptroller and Audit General is considered as an affront to the chartered accountancy profession.

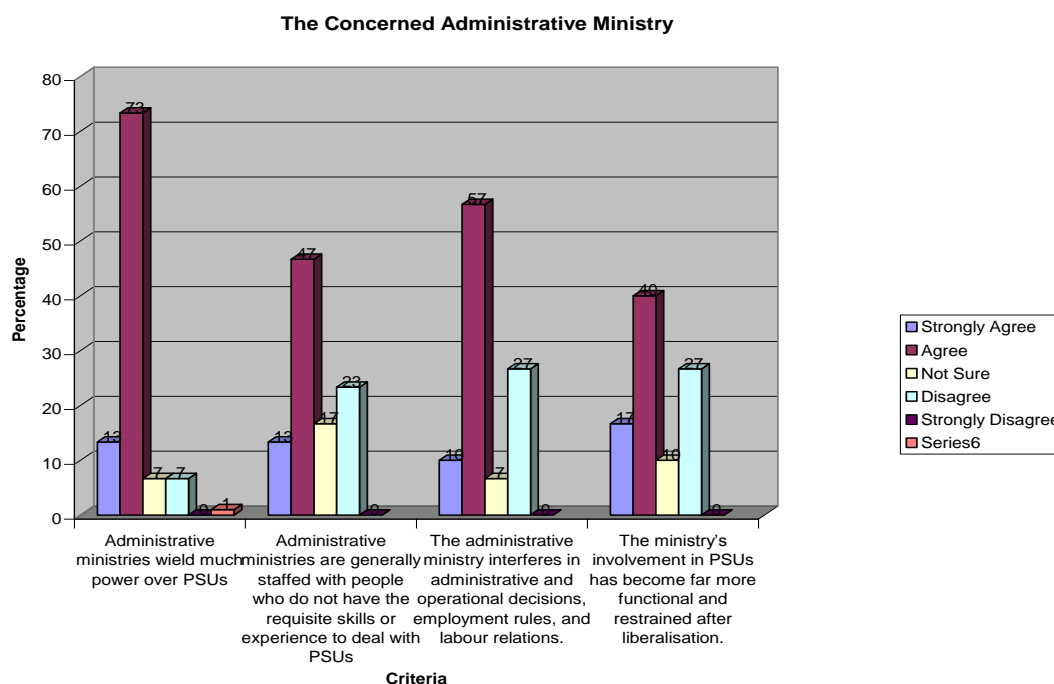
It is recommended that the Companies Act be amended to remove the separate category of Government companies and provide the necessary level-playing field for the PSU. In the interim, it is recommended that the Comptroller and Audit General relates itself as an instrument of public accountability through participation in the Audit Committee of the Boards and refrain from the traditional types of scrutiny to the extent legally permissible. Continuation of the existing approach considering errant auditors is no justification for over-governance but is a fit case to be addressed by the profession itself. Appointment of statutory auditors of PSUs should be the accountability of the PSU audit committees. The CAG's role should be to recommend firms that would fit the bill based on robust criteria. As required by Clause 49 of the SEBI Listing Agreement, the audit committees of PSUs should be involved in many aspects of the external and internal audit processes appointment of the auditors, approval of audit plans, audit fees and performance reviews. The audit committees should also engage in extensive private sessions with auditors (both internal and external) at regular and periodic intervals.

e) The Concerned Administrative Ministry

One of the chief complaints of PSU's has been that the ministers and the officials in the ministry exercise authority frivolously through formal as well as informal communications. Concurrently, there is inadequate consultation and discussion during crucial decisions. Whereas, the ministry can easily conjure up reasons for all such communications and non-communications, there is unanimity that good governance will ensue if communication systems and structures are rationalised.

It is also a fact that several directors and chief executives often appear to be seeking undue interaction with the ministers and secretaries - such inclination is also rationalised giving reasons of the importance of managing this authoritarian stake-holder. Irrespective of who is to be blamed for this situation, it is recommended that the administrative ministry contacts the PSU's only through its representatives on the Board and not otherwise. Even as its feasibility is discussed, the interim arrangement must be to list down all such communication-events along with the subjects of discussion for circulation among members of the Board every three months. Figure 5 The Concerned Administrative Ministry / The survey indicates large agreement regarding the undue strangling control of concerned ministry over PSU.

Figure 5 The Concerned Administrative Ministry



73% of the respondents feel that administrative ministries do wield much power over PSU with 13% showing strong agreement to the statement. This indicates that PSU want more autonomy in day to day functioning so that they do not miss business opportunities primarily due to tardy and slow processes involved while getting sanctions and approvals from concerned ministries and bureaucrats. Red tapism and frivolous approvals does eat into the precious time while bidding for businesses and ceiling the deal. When asked about the requisite skill or experience of staff members in Ministry to deal with business venture and the intricacies of understanding business world 13% strongly agreed and 47% agreed that the members of ministry lack requisite skill and experience of their business world.

While 33% disagreed with the statement and 17% were not too sure. There was strong sense of excessive interference by ministries regarding the operational decisions, managing labour relation and employment rules in PSU's. 57% agreed and 13% strongly agreed whereas 27% disagreed with the statement. When asked about the impact of liberalisation on PSU's 17% strongly felt that ministries involvement has somewhat decreased and 43% agreed to it but 27% disagreed and 10% were unsure. So, there is some positive changes post liberalisation period even though the PSU's are seeking more functional autonomy as can be understood by responses to the questions provided by the employees.

f) CEOs of PSUs

The question of what type of CEOs has been able to deliver thus far in the Indian public sector system remains little known and is controversial. The position profile and specifications of chairman and, chief executive (CEO) should be agreed by the governing board and shareholders beforehand and through the professional information of external bodies.

Figure 6: CEOs of PSUs

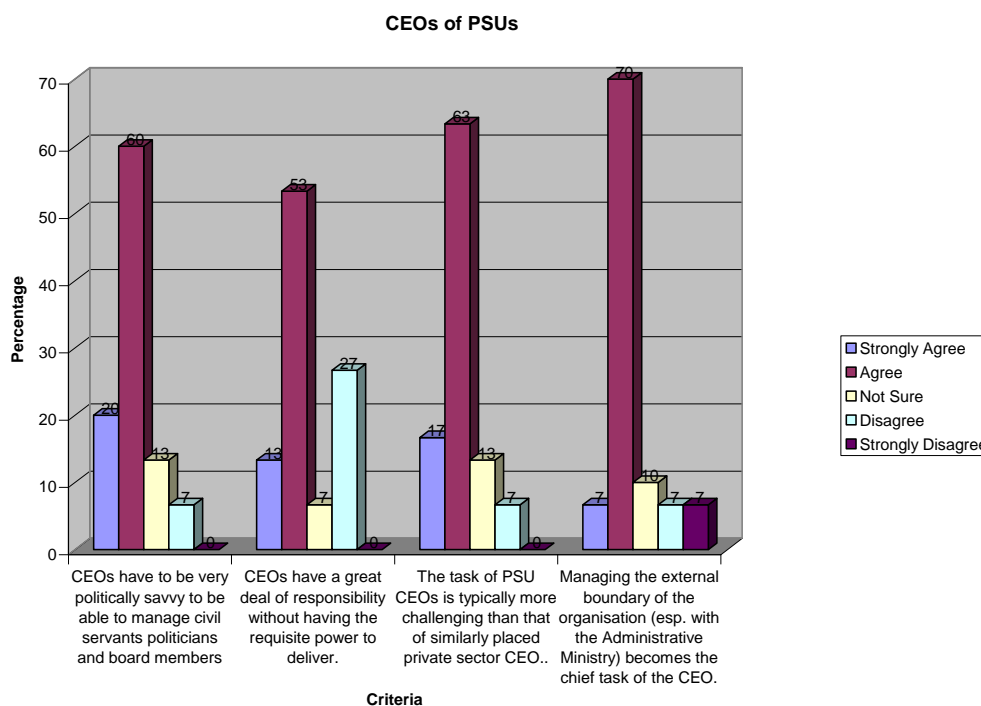


Figure 6: CEOs of PSUs / The CEO's task is typically trickier than that of similarly placed private sector CEO. 63% agreed to the statement as there are manifold objectives and roles which need to be performed by PSU's. Profitability is not the sole criteria for their functioning and their answerability to multiple agencies makes their job knotty and more challenging. Managing external relationship with administrative ministries becomes one of the essential roles of CEO's. Nearly 70% agreed with this statement.

So, there is somewhat deficient in of lucid role criteria. 20% strongly agreed and 60% of respondents agreed that CEOs need to be politically savvy and 53% also felt that CEOs of PSU's have more accountability without requisite power. It is recommended that the positions of Chairman and Managing Director continue to be vested in one person as against the popular view for the private sector.

This is to ensure that PSUs do not get into the same difficulties as several State level enterprises due to political appointees as non-executive Chairman. The positions may be separated as and when the selection process of the non-executive Chairman becomes objective and not as political patronage. The situation in the

private sector is the contrary where the balance of power is needed to be distributed in the opposite direction as a check against the prospect of run-away managements. This will ensure that individuals do not chase board slots and jockey for a position.

It will also help in debating and structuring the Board with the requisite competencies required to steer the organisation well into the future. Periodic amendments and exceptions may be needed. However, these amendments should pass through the board and the shareholders. Such a system will help in curtailing the scope for "cronyism."

g) Privatisation

The process of privatisation may ensure transferring property rights to new owners who may be from the general public, employees, other institutions and corporate entities. However, mere transfer of property rights does not ensure that the goals of privatization have been attained, until all-encompassing corporate governance procedure and structures are recognized and sustained, covering the transition period. In the lack of a good governance arrangement and procedure, together with more energetic and watchful shareholders, the objectives of privatization cannot be easily achieved. Thus, the administration has to endure a unswerving control or indirect monitoring of companies which are in the course of sale till circumstances arise necessitating withdrawal of direct and other contingent controls and contractual obligations. Figure 7.1 Privatisation / Figure 7.2: Privatisation / Shareholder activism in India is at embryonic phase and comes to the forefront only in occurrences where institutional investors holding a noteworthy stake are in a position to enquire the value of corporate governance.

Figure 7.1 : Privatisation

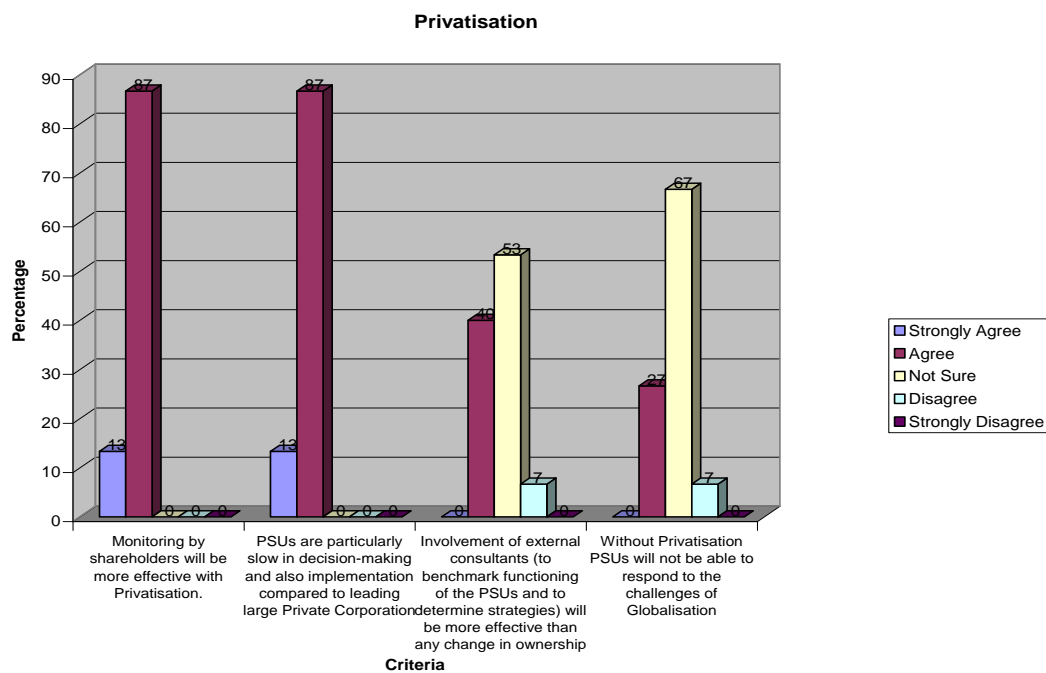
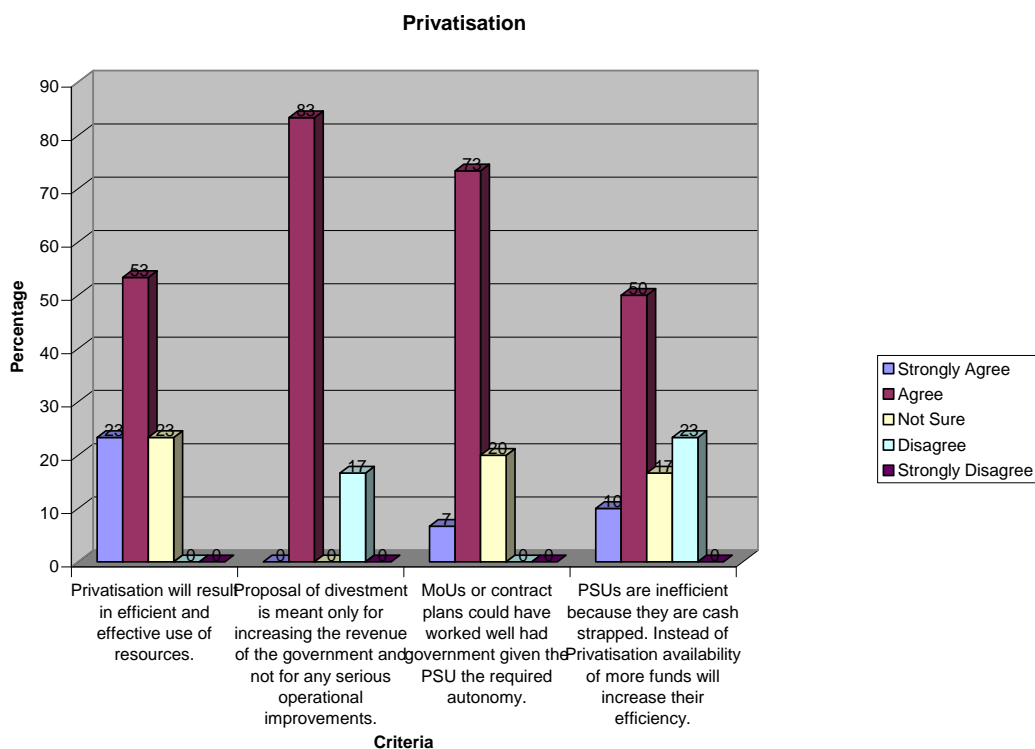


Figure 7.2: Privatisation



As minority shareholder may not have comprehensive view of their rights or the avenues through which these rights could be exercised, bigger activism from institutional stakeholders and strengthening the role of independent directors on the boards is expected to take form in future. Monitoring by shareholders becomes more effective with privatization. About 87% agree to this statement. Nearly 86% also agree that there is delay in taking decisions in typical PSU. Again, the concerns regarding autonomy were raised along with the view that often PSU's continue to be cash strapped. Nearly 60% agreed and 23% disagreed and 17% were unsure with the question of financial autonomy to enter into deals will bring in better effect of privatization. 67% were unsure if further privatization is a way out in the era of globalisation. So many PSU's are not in favour of complete privatization rather they believe that better management, commercial orientation and less political interference can help them take up the challenge of global competitiveness.

The government should draw up a consent based wide-ranging policy of privatization, for both companies and other entities, which can endure to be State-owned, the procedure of disengagement and the process of disengagement. An approach has been attempted in a limited way by segregating "core and non-core" and "strategic" enterprises, though the criteria are not evident. The efforts of the Disinvestment Commission and the Department of Disinvestment in this direction are noteworthy. However, these need to be deepened and broadened so as to cover all matters pertaining to the public enterprises and evolve a political consensus about future course of policy instead of following adhocism and incremental responses. The valuation methods, processes of valuation, choosing the method of disengagement, tendering/bidding and sale/selection of bidders have been contentious in most countries including India. These can be resolved through consensus and transparency, breaking away from the case-by-case approach to clear directives and policy stance.

There is a lot of debate amongst policy makers, managers, government on the advantages and disadvantages of privatisation and political consensus on it remains distant. Different political parties with varying orientation bring in difficulty in drawing fundamental positions on issues especially in the era of coalition politics in India.

h) Corporate governance and PSUs

Give your opinion about the listed issues regarding the state of corporate governance in your company. Corporate Governance and PSUs / In its efforts to balance its trusteeship and stewardship responsibilities, the government has granted varying levels of autonomy to PSUs. Autonomy involves a mindset change on the part of PSU senior executives and directors. The tendency on the part of the administrative ministries to interfere into the day to day functioning of PSUs has resulted in PSU CEOs consulting the ministries on matters that would generally not require such consultation. 50% of the employees felt government strikes little balance between trusteeship and stewardship role.

Figure 8.1 Corporate Governance and PSUs

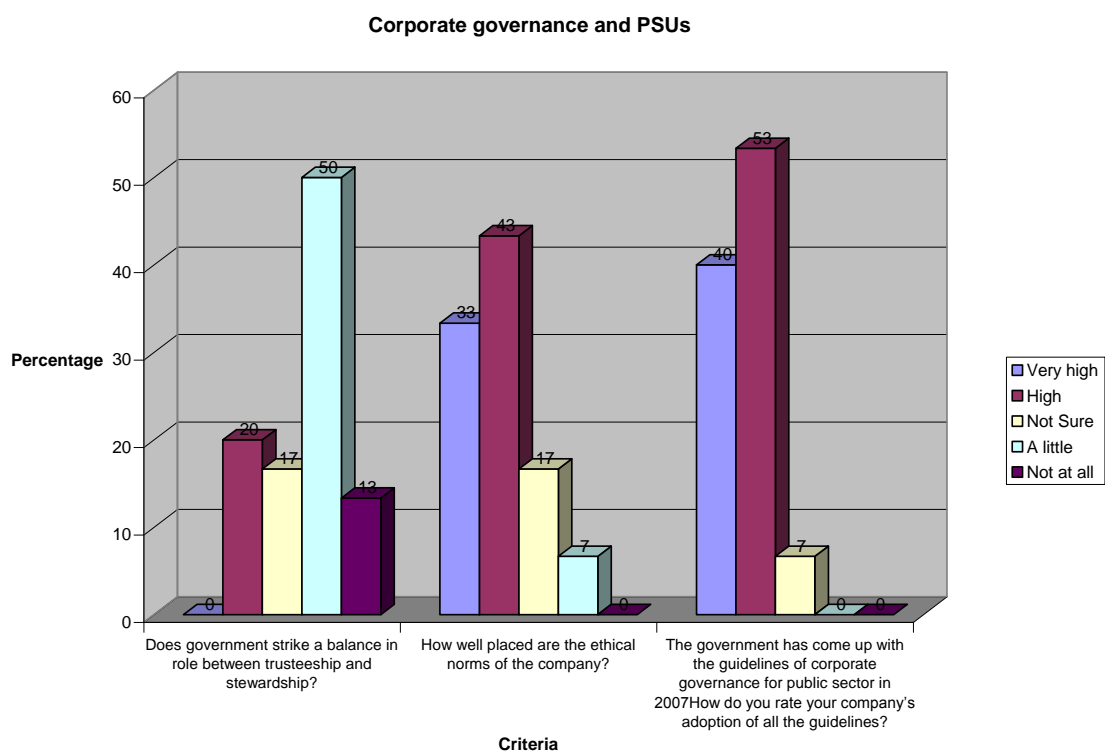
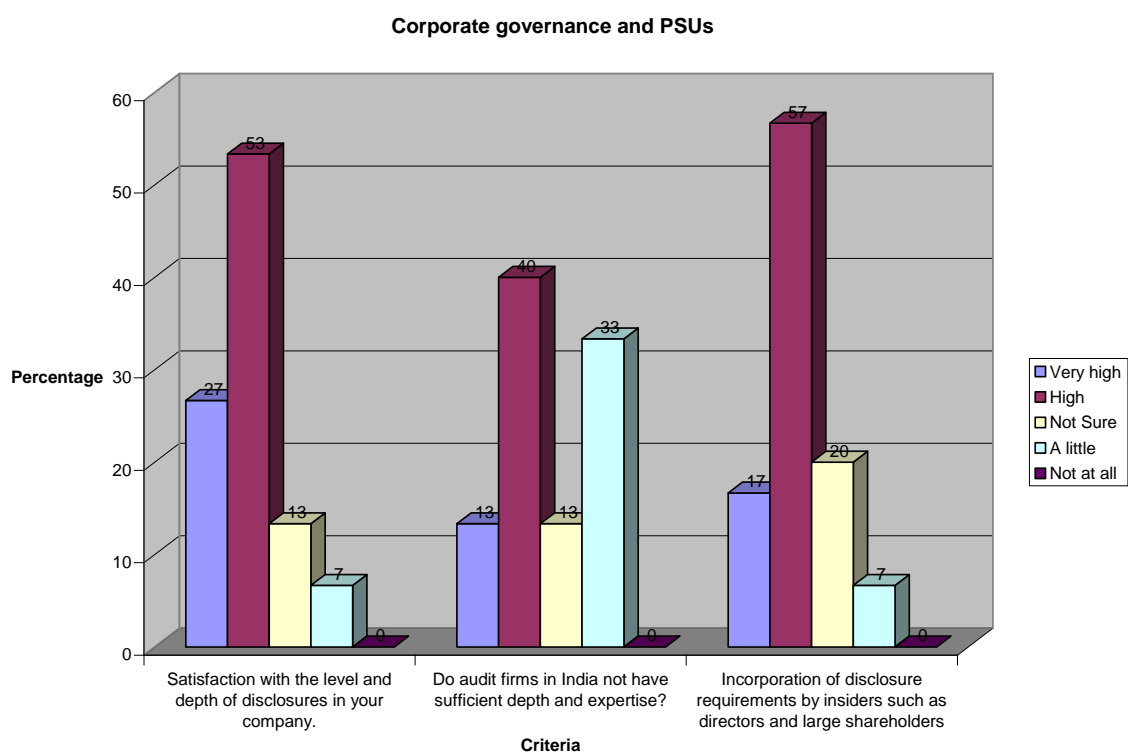


Figure 8.2 Corporate Governance and PSUs



The modest balance in the view of employees designates the want to bring in reform in this domain of relationship. 13% were not at all satisfied with this dual role of government. 17% were not sure whereas only 20% were satisfied. How such autonomy is practised and practical challenges encountered by PSUs in the usage of autonomy granted to them is an area that warrants further introspection as the opinions remained divided. A

code of conduct and whistle blower policy are imperative which serious reform needed to make them integral part of the corporate governance mechanism. It is similarly significant is assess as to how they are in ground getting communicated and practised. It is vital for board members and senior management to set standards and lead by examples to instil the culture of ethical governance.

The employees felt the ethical norms of the company are theoretically well placed. In fact, overwhelming majority that is 73% were highly contented with the norms in the company. They felt the company placed high weight to ethics in its functioning. Figure 7.2 ./ Greater transparency and disclosure of executive performance criteria are requisite which include financial and non-financial measures. Regulators should send strong indicators that they shall be active in imposing considerable disadvantages for non-compliance, so that obedience is stringently followed. 80% are satisfied with the level of disclosures in the company with 53% expressing high satisfaction level and 27% being very highly satisfied. 53% felt audit companies in India have the expertise and financial knowledge to do high-quality job of auditing. More than 70% were also highly satisfied with the incorporation of disclosures requirements by insiders such as directors and large shareholders.

II. CONCLUDING OBSERVATIONS

Maharatna, Navratna and Miniratna PSUs ought to be the front runners in the way in executing the Ministry of Corporate Affairs (MCA) voluntary guidelines on corporate governance. To help foster that PSU boards need to focus on the leading substantive issues, alternate instruments such as a two-tier board structure and introducing board performance assessments should be dynamically thought of. Further, to make the most of their input, nonexecutive directors on PSUs should be drawn from the private sector and sufficiently compensated on par with their private sector counterparts. Sitting executive directors in well run PSUs should be stimulated to undertake non-executive director roles in state PSUs and the smaller/unlisted/not so profitable PSUs. PSU CMDs should be enthusiastically referred to and engaged in the selection and appointment of nonexecutive directors on PSU boards which does not happen consistently enough. The role of the Public Enterprises Selection Board (PESB) warrants reconsideration in this context. The government should deal resolutely with non-compliance of corporate governance norms equally by listed and unlisted PSUs. Unambiguous disclosures of the compliance levels realised and clear accountability are significant prerequisites to accomplish this. The government should undoubtedly and unmistakably set out its ownership policy and how it may apply in matters that have consequences for minority shareholders.

All approaches to Corporate Governance appear to converge on the question of endorsing a code for adoption. While good codes can be significant templates if they are reinforced by suitable sensitization and training, there are several actions possible that would improve governance even if the formal codes take time for institutionalization. It is suggested that each PSU draws up a group of executives from middle and senior levels of management as potential Ethics Counsellors. Evidently the antecedent conditions relating to the functioning of the Central Public Sector Enterprises (CPSEs), on account of both internal and external factors, do not exist any longer. CPSEs have to be prepared for meeting the challenge of global competition and achieving commercial goals, more than ever before.

They must respond proactively to the market dynamics by making decisions faster and taking bona fide commercial risks. More changes are necessary in the following areas: public sector management; intergovernmental relationships, particularly involving Parliament and regulatory agencies; and internal organizational management. On a broader level the issue of corporate governance has again taken centre-stage in deliberations on India's corporate performance.

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