

Landscape – Challenges in Reforming SOE Governance *India*

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Y.R.K.Reddy

Founder Trustee

Academy of Corporate Governance

Hyderabad –500 0034, India

yrk@academyofcg.org

www.academyofcg.org

Size of the Task

- **Central Public Sector Enterprises** comprising of Corporations excluding “departmental undertakings” / activities such as Railways, Posts, many Ports, defense factories etc.
 - 227 Operating out of about 242; about 63% of them profit making; ROI of about 21.5%.over Investment of about \$115Billion
 - Most in commercial activities & non-monopolies, lately competing with private sectors.
 - Several listed in Stock Exchanges – Marcap approximately 35% of BSE in 2005. Large ones follow international accounting, disclosure and triple bottom-line reporting standards.
- **State Level Public Enterprises** – about 1036 spread over 28 States + union territories; about 20% not operating but not liquidated and nearly 50% loss making; net accumulated loss of \$11billion over investment of \$57Billion as per last survey.
- **The difference in performance could also be attributed to Corporate Governance standards.**

Some Recent Policy Directions

Impeding trends:

- “Under-pursuit” of Privatization Policy – combinations of political opposition and market conditions.
- Changes in political dispensations and their impact on (a) privatization / restructuring (b) retraction in some policies on price controls & budgetary support to sick / loss making firms. (c) Assertion of discretions over independent actions in appointments. (*Closing of Disinvestment Ministry & Setting up of Board for Reconstruction of Public Sector Enterprises; ministry directed mergers; new resistance to procedures of appointments of CEO / Directors; reverting to administered price regimes in petroleum products etc*).

Promoting trends:

- Moves for reform of controls and governance structures (Ad Hoc Group of Experts on Empowerment of SOEs; Committee for Strengthening the Vigilance system & moves for limiting jurisdictions of Govt agencies etc.; stand-off between a SOE Board and a Ministry; restrictions on Government Nominees on a Board; proposed changes to Company Law etc.)
- Right to information law (?)
- The new moves for awareness building / Director training in Corporate Governance among the central PSEs.
- The notable experiments in the State of Kerala – for CG training, awareness building, of civil servants, politicians apart from Boards and Top Management - integrating CG with Governance reform.
- Indications of re-conceptualization of Privatization units / secretariats to incorporating Corporate Governance reform (orissa state??)

Some Key Challenges

- Lack of awareness of corporate governance framework, standards, their rationale and their socio-economic impact, among civil servants and political leaders.
- Lack of systematic training in Corporate Governance for Boards, top management of SOEs.
- Creating incentives to mitigate entrenched interests; Sunk costs – among Ministries, Civil Servants.
- Potential resistance to some CG standards from Top Management of SoEs – especially relative to budgetary support; Government guarantees; purchase preferences; special status as civil servants etc.,
- Process / procedural changes in ministries, supreme audit (CAG); anti-corruption agencies(CVC) etc that calls for governance reform and capacity building among these.