

## **Public Sector Undertakings and Corporate Governance**

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**Abstract:** Public Sector Undertakings in India has been the back bone of Economies post independence which was the need of the hour, but off late due to competition and satirical attitude of the bureaucracy they are now at the receiving end in the economy. They have lost the sheen which was once supporting the not only the economy but also the families who are now retiring from their services. The administration of PSU's once moved into the Political clout and this may be the beginning of the downfall of PSU's and they started turning into red. Once they turned red the focus on them was only once in five years ie at the election time. The concept of corporate governance which is aimed at maximizing the share holders wealth became part of those corporate who are in green ie who are in profits. This article focuses on the Corporate Governance issues in PSU's, those if addressed can cement their foundations making them a turnaround story.

### **Issues in Corporate Governance of PSUs**

Since the launch of New Industrial Policy, many Indian PSUs have grown immensely domestically as well as globally. To increase competitiveness and improve investor confidence, it is important for them to embrace corporate governance standards which would ensure further growth in an ethical and transparent manner. The major impediment in achieving desired level of competitiveness is governance deficit due to certain key issues which require immediate attention. Some of these are:

1. **Autonomy of the Board** – A competent and autonomous Board is important for success of any corporate. However, Ministerial diktats may, at times, influence the Board agenda in case of PSUs and take precedence over strategic and commercial considerations. PSUs have no

role even in selection of independent directors<sup>1</sup>. Without full operational and financial autonomy, it is difficult to have a structured performance evaluation system for the Board members and fix accountability.

2. **Ownership policy** – There is no ownership policy in place. It is needed to clearly lay down role and responsibilities of the Government towards minority shareholders and other stakeholders such as employees, vendors, customers and communities. The Organisation for Economic Cooperation and Development (OECD) states that “the government should develop and issue an ownership policy that defines the overall objectives of state ownership, the state’s role in corporate governance of state-owned enterprises and how this policy is likely to be implemented.” The ownership policy should be clearly disclosed and communicated to fix accountability.
3. **Appointment of independent, non-executive directors and women directors on PSU boards** – Legal provisions and Guidelines issued by SEBI and DPE have laid down requirements for the constitution of PSUs Board to ensure their independence and gender diversity. It is widely believed and empirically established that properly structured Board is necessary for ensuring objectivity of Board’s decisions and exercising oversight over decisions of Board and its Committees. Out of the top 27 PSUs, according to a recent study<sup>2</sup>, 25 per cent do not meet the criteria for independence of the Board and nearly 25% do not have a woman director.
4. **Non-compliance with legal requirements and SEBI and DPE Guidelines** – It is disconcerting to note that many of the top PSUs are falling behind in complying with minimum requirements envisaged in Clause 49 and DPE Guidelines. Even the compliance audit conducted by the Comptroller and Auditor General of India has highlighted this issue.

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<sup>1</sup> For ‘Ratna’ PSUs (i.e. Maharatna, Navratna and Miniratna) names of independent directors are recommended by the administrative ministry to the Public Enterprises Selection Board, or PESB. The list of shortlisted candidates is then sent to the administrative ministry and Appointments Committee of the Cabinet makes the final selection.

<sup>2</sup> <https://timesofindia.indiatimes.com/business/india-business/PSUs-fare-poorly-in-corporate-governance/article-show/49887036.cms>

5. **Excessive regulation** – Besides Parliament, PSUs are also accountable to other authorities like Comptroller & Auditor General of India, (CAG); Central Vigilance Commission, (CVC); Competition Commission of India, (CCI); and Right to Information Act, (RTI) etc. Over regulation has not only created accountability problems but has also killed corporate governance.

Issue of Governance deficit in PSUs should be addressed and if the PSUs have to make a mark on world business map then they should be looked at not as Government but entities running to make judicious use of resources they have been entrusted with. It is interesting to note the observation of the force behind establishment of PSUs in India, Pt. Nehru, in this context. While debating on Second Five Year Plan in Parliament, he said, “I have no doubt that the normal governmental procedure applied to a public enterprise will lead to the failure of that public enterprise. Therefore, we have to evolve a system for working public enterprises where on the one hand, there are adequate checks and protections, and on the other, enough freedom for that enterprise to work quickly and without delay.”