
UNIT 6 GOVERNMENT - PUBLIC ENTERPRISES : INTERFACE

Corporate Governance
and Corporate Social
Responsibility

Objectives

After reading this unit you should be able to :

- Explain the nature of Central Government's Interface with its enterprises;
- Pin point the factors which affect Government PE relationship;
- Understand the various ways in which the government exercises control over its enterprises ;
- Recognize the principles which ideally should guide Government PE relationship;
- Have an understanding of the Government machinery which interacts with PEs.

Structure

- 6.1 Introduction
- 6.2 Factors Affecting Government – Public Enterprise Interface
- 6.3 Nature of Interface
- 6.4 Ways in which Government Control is Exercised
- 6.5 Need to review Government – Public Enterprise Interface
- 6.6 Principles of Government – Public Enterprise Interface
- 6.7 Reasons for Excessive Government Control
- 6.8 Government Machinery which Interacts with Public Enterprises
- 6.9 Summary
- 6.10 Self Assessment Questions
- 6.11 References and Further Readings

6.1 INTRODUCTION

The government as owner has a close and continuous relationship with its enterprises. It also oversees the working of PEs and controls their operations because they are instruments of its economic and social policies. The problem is to strike the right balance between government control and the autonomy required for managing PEs. For example, if the government interferes in the day-to-day decision making, PEs, cannot show results as commercial entities. Yet, the government cannot provide full freedom to its enterprises, as it is responsible for their performance to Parliament.

6.2 FACTORS AFFECTING GOVERNEMENT – PUBLIC ENTERPRISE INTERFACE

The Government PE relationship is affected by many factors taken together, of which the personality of the chief executive of the enterprise and his equation with the concerned minister, and the secretary of his ministry is perhaps the most crucial. It has been noted again and again that within the same environment some PEs have been able to secure greater autonomy to operate commercially, mainly based on the personality of their chief executives.

The second factor affecting the relationship is the profits earned by an enterprise. The Government somehow gets more concerned with the loss-making enterprise,

Public Enterprise Profit or loss may not always be due to the efficiency or inefficiency of the enterprise. An enterprise can make profits due to its monopoly position or may incur losses because the government may not allow it to increase the price for its products or charges for its services.

6.3 NATURE OF INTERFACE

- i) **Formal :** The Parameters of formal relationship and the way it would operate are laid down in the Articles of Association of a Government Company, and in the Acts of Parliament for the statutory corporations.
- ii) **Informal :** This is exercised through personal communications, through Government directors on the Board, and through written communications suggesting a course of action for the consideration of the enterprise. Obviously, in case of informal influence, the responsibility for the decision and for its consequence is of the enterprise and not of the Government.

An important aspect of informal relationship, that the Government exercises much authority over its enterprises without accepting responsibility of its consequences. For example, the government may suggest to the enterprise to award a contract to a party, to purchase from a particular source, locate a new unit at a particular location, or not to increase the price of its products. Now, if the enterprise follows the advice and suffers a loss, the Government official or the minister could deny his role, or say that he never ordered the course but had only suggested it for the consideration of the enterprise.

But the wishes of the senior officials of the Government or of the concerned minister are in practice or less than orders. It is so because PEs often depend heavily on the government for all their funds and also for numerous day-to-day approvals, clearances and other help.

Let us discuss three dimensions of Government - PE Interface, which are as follows :

The Government as Owner : The government interacts with a PE in three capacities. First, as owner for most PEs, the government supplies the whole or majority of the capital, and is therefore interested in getting an adequate return on its investment and also for the safety of its funds.

Government as Government : Secondly as regulator of the economy, the Government would like PEs to follow various policies, rules and regulations as in case of private enterprises, for example, policy regarding foreign collaboration, location of unit, price control, import substitution, etc. similarly, laws of the land including labour laws are applicable to both the sectors.

Government as Lender of Funds : Thirdly, as lender of funds, the Government as a banker evaluates capital investment proposals and working capital needs of PEs, and oversees effective utilization of funds.

In the case of private sector, these three functions are often distributed : the ownership is widely distributed among the public at large, the regulation is with the Government and its agencies, and the financier's role is played by the public financial institutions, banks and the capital market.

In PEs, the three roles converge into one body, namely, the Government. And this makes a qualitative difference : the PEs get unduly and excessively regulated, controlled and overseen by the government. The Government also imposes various obligations on PEs which may be incompatible with their efficient management as industrial and commercial entities.

6.4 WAYS IN WHICH GOVERNMENT CONTROLS EXERCISED

The government exercises control over its enterprises in various ways. Some of the important methods of Government control are discussed below :

Power to Appoint the Board of Directors : The Government as the sole or majority owner of PEs appoints their Board of Directors. However, the exercise of this power has often not been in the best interest of PEs.

The main problems have been :

- i) Delays in filling Board level vacancies;
- ii) Presence of too many officials on the Board who tend to bureaucratize decision-making;
- iii) Inadequate part-time professional experts on the Board.

Prior Approval for Important Matters : The Government as owner has reserved many matters to itself, on which decisions can be taken only after its approval. These matters have been listed in the Articles of Association of Government companies, and in the Acts or the rules made under them in respect of statutory corporations. Some of the important matters for which prior approval of the government is generally required are given below :

- i) Capital expenditure beyond the limits laid down from time to time. For example, most of the PE, can take an investment decision upto Rs. 20 crores at a time but have to get the government's approval beyond it.
- ii) Formation of a subsidiary company by the enterprise.
- iii) Making of rules governing the conditions of service of the employees' provident funds and to create reserves and special funds.
- iv) Giving employees a commission on the profits of the business of the enterprise.
- v) The plans of the development and capital budget of the enterprise and also the revenue , budget, if there is an element of deficit in it, which is proposed to be met by the government

It may be noted that PEs generally prepare two types of budgets, i) capital ii) revenue. All budgets involving capital expenditure must be approved by the Government, but budgets for revenue expenditure like purchase, wages, salaries, overheads, etc., need Government approval only if they show a deficit, which the enterprise would like to be met by the Government.

- vi) Agreements involving foreign collaboration.
- vii) Borrowings, investment and distribution of profits.

In practice, the Government approval is required for many more matters than stated in the Articles or the Acts of Parliament. The Department of Public enterprises has issued many circulars containing Government decisions. These refer to matters for which the enterprises have to secure approval of the Government. Two examples where prior approval of the Government is required are i) Wage settlement with the employees beyond the guidelines issued by the Department of Public Enterprises, and ii) Visit of the chief executive of a PE abroad.

Government's Power to Issue Directives: The Government has a right to issue directive to PEs in regard to their affairs, and the enterprises are bound to comply with them. The directives could be general or specific. Two important examples of general directives are : i) reservation of posts for Scheduled Castes and Tribes and ii) for ex-servicemen and dependents of those killed in action.

specific directives are i) The NTPC was once asked not to enforce service agreement bonds against seven executive trainees who had abandoned the service of the corporation to join another Government department, ii) the Indian Oil Corporation was asked to conduct departmental enquires against Officers of the Barauni refinery and, iii) the LIC was asked to set up a divisional office at Silchar.

In most cases, the provision in regard to the issue of directives as contained in the Articles of Association of Government companies is as follows :

“The President may, from time to time, issue such directives of instructions as may be considered necessary in regard to the finances, conduct of business and affairs of the company or the direction thereof. The directors shall give immediate effect to the directives so issued”.

There are many important variations in the language used. For example, in the case of SAIL and the NTPC, there is a rider which states : “Provided that all directives issues by the President shall be in writing addressed to the Chairman. The Board shall, except where the President considers the national security or interest requires otherwise, incorporate the contents of the directive issued by the President in the annual report of the company and also indicate its impact on the financial position of the company”.

The last part of the directive is important. If the directives were published in the annual report along with financial implications to the enterprise, it would do a lot of good to the PE system. But the government sometimes managers the situation by not issuing written directives, and uses office orders, circulars, expression of opinion and through official directors on the Board of the enterprise.

Circulars and Office Orders Issued by the Government: Government PE relationship is also regulated through circulars issued by the Department of Public Enterprises and by some ministries and departments from time to time. These circulars have no legal sanction. But as they are a formal expression of the wish of the owner, they are given due weight by PEs. Moreover, Government directors on the Board often insists on compliance with these circulars.

Hundreds of circulars, demi-official letters, office orders etc., which deal with almost all the important (and not so important) aspects of PE working have been compiled in the form of a book by the Bureau of Public Enterprises and published by the Standing Conference of Public Enterprise (a formal body of chief executives of Central PEs), New Delhi, under the title “Government Policy for the Management of Public Enterprise”, A few examples of the matters covered in these circulars are :

- i) Avoidance of retrenchment of labour when computers are introduced ;
- ii) Policy regarding wage revision;
- iii) PEs not to present costly gifts to their Board members at the Annual general Meeting of the Company ;
- iv) Details of voluntary retirement schemes adopted by PEs;
- v) Delegation of powers regarding capital expenditure which can be incurred by the Board of an enterprise;
- vi) Instruction to PEs to effect economy in the provision of residential telephones on the same lines as in the Government;
- vii) Details of consideration to be kept in view, while fixing remuneration payable to consultants;
- viii) Advice to PEs to adopt a comprehensive budgetary control system.

As the circulars are not legally binding, many PEs do not follow them, depending upon their circumstance and courage. The Government also rightly leaves the matter to the good sense and judgement of PEs, except where important issues like pay and benefits to the employees are involved, which may have wide repercussions.

Report and Returns Obtained from PEs: The Government has Corporate Governance and Corporate Social Responsibility call for such returns and other information in respect of an enterprise. Detailed formats have been prescribed for this purpose.

The following is a summary of main reports which PEs submit to the Government regarding their operations.

Subject	Periodicity	Broad Coverage
1) Summary Information	Quarterly	Production, sales capacity utilization and imports and exports
2-A-1) Physical Production	Monthly	Production of major products and variations between targeted and actual production
2-A2) Physical Production	Monthly	Reasons for loss of production and actions for rectifying the position
2-B1) Machine utilization	Monthly	Machine hours targeted and utilized by shop principal machines.
2-B2) Machine hours	Monthly	Loss of machine hours, causes thereof and action taken
3) Sales	Monthly	With reference to major products – planned and achieved
4) Profit and Loss Position	Quarterly	Summary of various figures before arriving at the Profit/Loss, as compared to budget and the previous year/quarter.
5) Order book position	Half yearly	Growth potential and efforts to secure orders
6) Inventories	Half yearly	Norms and actual stock of finished goods, raw materials, spares and stores (separate figures for imported and indigenous)
7) Exports	Half yearly	Growth potential and efforts to secure orders
8) Employment	Half yearly	Employees in various categories showing increase over the previous period
9) Internal resources	Yearly	Generation and utilization as compared to the budget
10) Township and social overheads	Yearly	Details of expenditure on these items, compared with the budget and previous year
11) Management ratios	Yearly	Eight ratios regarding production (e.g. value added per man month, and cost of sales to sales), inventories (4 ratios). Personnel 3 ratios (average sales per employee average emolument per employee, and mandays lost mandays scheduled), finance (6 ratios), and R & D expenditure to net sales (22 ratios in all).

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Control The Government does not make the best of the report received by it because it lacks sufficient manpower/and expertise to analyze the data received and to take the necessary follow-up action. It is sometimes asked whether it should at all be necessary of the Government to receive numerous reports except for statistical purposes.

6.5 NEED TO REVIEW GOVERNMENT – PUBLIC ENTERPRISE INTERFACE

The Economic and Administration Reforms Commission (Chairman L. K. Jha) was rightly of the view that “there should be a radical re-examination of the nature of the Government’s relationship with PEs. The concept of ‘administrative control’ should be thoroughly reconsidered. PEs should be distanced from the Ministries and the latter confined to periodical reviews of overall objectives. The constant stream of instructions, questions, requests for information, summons to meetings, telephone calls etc., should be drastically curtailed. The detailed supervision of operational matters should be stopped. Determined efforts should be made to get away from the tendency on the part of administrative Ministries to treat public enterprises as subordinate offices”.

The above view sum up the situation in regard to Government – PE interface. Most PEs though meant to operate as autonomous commercial entitles, are not so in actual practice. One of the ways to meet the situation is the institution of Memorandum of Understanding (MOU). However, it is yet to be seen how far the MOU would be able to streamline the Government-PE interface and improve PE performance.

6.6 PRINCIPLES OF GOVERNMENT – PUBLIC ENTERPRISE INTERFACE

The ideal way in which the Government should interact with its enterprise is difficult achieve. But it should be attempted with all sincerity and seriousness. This ideal way is summed up in the following ten principles. These were stated by the Select Committee on Nationalized Industries (U. K.) nearly four decades back:

- 1) The Government should be concerned with securing that PEs operate in the public interest. And for this purpose, it should decide the broad policies to be pursued including their financial and economic obligations.
- 2) The Government should seek to ensure the efficiency of PEs by exercising a broad oversight over them, but should not become involved in their management.
- 3) The PEs should be left as free as possible to carry out the policies required of them as efficiently as possible.
- 4) There should be clear demarcation of responsibilities, both between Government departments and PEs. An important part of this principle is that if the enterprises are not able to deliver the goods, the Government would not do the enterprise job itself.
- 5) The methods of Government control should be mainly strategic rather than tactical PEs can have a clearer idea of what the Government requires of them, if they do not subject to frequent, ad hoc, tactical control.

- 6) The nature of government control need not be wholly formal. Although informality has its dangers, a close intimate and informal relationship cannot be avoided, and is even beneficial.
- 7) The Government and PEs should be publicly accountable. It means that responsibility for actions, successes and failures should be publicly identifiable.
- 8) The measure of management should not be purely commercial successful or social achievement, but should be efficient with which the enterprises carry out the joint commercial/social duties given to them. The efficiency is compounded of two factors : success in giving customers the goods and services they want and success in minimizing the cost of doing so.
- 9) The ultimate sanction for bad management may be dismissal or non-reappointment in the post, but improvement of management should be the first objective.
- 10) Proper and fruitful exercise of Government control depends on the attitudes and ability of both the minister and his secretariat and the PE Board and its officials. The principle speaks for itself because “If the men are wrong, nothing will be right”.

Though the above principles are sound and meaningful, they are generally not observed in practice. They often get distorted by the troubles of individual enterprises, and the government’s disinclination for transparency in its relationship with PEs.

The Parliamentary Committee on Public Undertakings of the eighth Lok Sabha in its 32nd report emphasized streamlining of the Government PE relationship. It is said that “as against excessive control, the Government should restrict itself to issuing policy directives, exercising strategic control”. It wanted the areas of power and authority between PEs and the administrative Ministries to be clearly delineated. The Committee felt “concerned over the growing tendency on the part of the Ministries to interfere into the working of the enterprises” and it wanted “the ground rules to be laid down to restrict the Government directives only to matters of policy without transgressing into the sphere of detailed administration”. But nothing has come out so far from these views. The Government continues to exercise a lot of unnecessary, and undesirable control over its enterprises.

6.7 REASONS FOR EXCESSIVE GOVERNMENT CONTROL

The main reasons why the government has not been able to maintain the required distance from its enterprise are :

- i) PEs are often centres of large power and authority;
- ii) The socio-political content of their operations are high in many cases.
- iii) PEs are important and useful instruments of public policy. The Government therefore finds it difficult to keep away from PEs. PEs however greatly suffer in the process and get damned when they fail to show result in competition with private enterprise.

6.8 GOVERNMENT MACHINERY WHICH INTERACTS WITH PUBLIC ENTERPRISES

In the context of government PE interface, it is necessary to have an appreciation of the Government machinery which interacts with PEs. Some important organs of this machinery are discussed below :

Administrative Ministry

Every enterprise is attached to one ministry/department or the other. For example, the Department of Civil Aviation is the administrative ministry for the Indian Airlines and Air-India, and the Department of Steel is the administrative ministry for SAIL. Generally, two nominees of the administrative ministry are on the Board of directors of the enterprise, in providing finance, in policy formulation, and in overseeing the performance of the enterprise. This ministry also provides link for the enterprise with Parliament, with the Comptroller and Auditor General, and with other national and international agencies. (providing the link means that these bodies, interact with PEs via the administrative ministry. For example, if there is a question in Parliament, it is received by the administrative ministry which obtain the reply from the enterprise for the concerned minister).

All policy and financial matters which need clearance from the Government have to be routed by the enterprise through the administrative ministry. For example, if the enterprise wants to raise money in the market by issuing bonds or it wants to enter into a foreign collaboration, it has to get clearance of its administrative ministry, which may also send the proposals to the concerned Government departments.

It is the administrative ministry/department which is responsible for the performance of the enterprise. Therefore, the administrative ministries have a close and continuous interaction with their enterprises.

There is much confusion about the division of responsibilities between the ministries and PEs. PEs also often play safe and refer many matters to the Government which may not be necessary under the rules providing them autonomy. But the PEs do so because in this way, the Government become a partner in the decision-making and PEs can pass on some responsibility of their decisions to the Government.

Department of Public Enterprises (DPE)

It is the co-coordinating agency for all Central Government PEs. It was set up in 1965, as a part of the Ministry of Finance. In 1985, it was transferred to the Ministry of industry.

Some of the important functions of DPE are as follows :

- 1) To give policy guidelines to PEs in areas like industrial relations, wages and benefits, organization structure, administrative vigilance, sound management practices, etc.
- 2) To assist various ministries in floatation of new government companies.
- 3) To examine proposals of various ministries in regard to capital structure of PEs, and creation and upgradation of posts at the Board level. (if a Board level appointee in a PE is to be given a higher scale, the matter is also examined by the DPE.)

- 4) To organise training programmes for senior PE executive with the help of training institution in the country.
- 5) To examine all cases of policy where decisions of one PE have repercussions on other PEs.
- 6) To act as a nodal agency for co-ordinating all activities relating to the Memorandum of Understanding which various ministries enter into with the PEs.
- 7) To prepare a comprehensive report on the working of PEs and to submit it annually to Parliament (this three-volume report is entitled 'Public Enterprises Survey').
- 8) To conduct in-depth studies to identify weak areas with the object of improving productivity and performance of PEs.

Ministry of Finance

Whenever PEs have to get funds for meeting their losses or for expansion and growth, the Ministry of Finance comes into the picture.

All proposals for capital expenditure beyond Rs. 50 crore are cleared by the Public Investment Board, which is chaired by the Secretary (Expenditure) in the Ministry of Finance.

PEs have to interact a lot with the Ministry of Finance whenever proposals sent to the Government have financial implications.

Vigilance Agencies

Both Central Bureau of Investigation (CBI) and the Central Vigilance Commission (CVC) are in regular contact with PEs where employees have been charged with corruption. According to a Government decision of October, 1986, the Board of the enterprise would function as vigilance body for employees below the Board level and the CVC would launch proceedings only for the Board level appointees. The CBI however has jurisdiction over all the employees of PEs. We will discuss CVC in Unit 8.

Other Ministries and Departments

PEs have to interact with the Planning Commission, if their expenditure proposals are to be included in the plant estimates, and they hold discussion with the Project Appraisal Division of the Planning Commission, if they submit proposals for clearance by the Public Investment Board.

The Labour Ministry comes into picture in regard to labour policies, wages and incentives, and for schemes of employees' participation in management, and voluntary retirement. The Home Ministry is concerned with reservations for various categories, vigilance, and industrial security.

Activity 1

- a) Briefly describe two dimensions of government- PE interface.

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b) State two factors which affect government PE relationship.

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Activity 2

State two ways in which Government exercises control over its enterprises.

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6.9 SUMMARY

The Government controls, guides and finances PEs. A complaint often heard from PEs is that corporate business entities, they do not get adequate autonomy to show results. The Government has formal powers (i) to appoint the Board of directors (ii) to give approval for important matters, (iii) to issue directives, if and when the need arises, (iv) to guide PEs through office orders and circulars on various matters of policy and day-to-day operations, and (v) to receive the prescribed reports and returns from the PEs. The Government also has large informal powers over its enterprises.

There is a need to be clear about the role of the Government in respect of its enterprises. The ten principles stated above may be a useful guide in this regard. Most PEs are important centres of power and authority and have important socio-political implications. This makes it difficult for the Government to distance itself from PEs. But it is necessary that PEs have adequate managerial autonomy to operate successfully. How can the requires autonomy can be secured ? It continues to be a big dilemma of PE management.

All PEs are under one or the other ministry of the Government called administrative ministry. In addition, PEs have to interact with the Department of Public Enterprises, Ministry of Finance, Vigilance Agencies and various other departments.

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6.10 SELF ASSESSMENT QUESTIONS

Treat each of the objectives listed above as a question and write a few points for each one so that you may assess whether you can recall the main points discussed in the Unit.

6.11 REFERENCES AND FURTHER READINGS

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