Report

of

Panel of Experts on Reforms in Central Public Sector Enterprises (CPSEs)

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FOREWORD

The Planning Commission had constituted a "Panel of Experts on Reforms in Central Public Sector Enterprises (CPSEs)" vide their Order No. 1&M 14(30)/2010 dated 13.08.2010. The Panel of Experts was required to examine a range of issues inter-alia relating to HR & Corporate Governance, MOU system, effective partnerships with private sector, diversifications, mergers & consolidation, technology mapping in CPSEs and to suggest a road-map for further development of these enterprises.

Although there has been marked improvement in the performance of CPSEs, they continue to operate under multiple constraints. The panel held several meetings to discuss all the issues. In the course of these meetings, the panel members had the opportunity to interact with the CMDs of Maharatna – Navratna CPSEs and also those from the financially stressed CPSEs. In these interactions, attention was drawn to main areas of concern for these CPSEs, to which the panel has paid greater attention. The thrust of the recommendations is, therefore, on the nature of the relationship with the controlling ministry, vigilance mechanism, the composition, power and size of the Boards, the process and time taken for appointments of CMDs and Directors, HR practices, greater autonomy for entering into JVs and Research & Development, in CPSEs.

I take this opportunity to express my grateful thanks to the distinguished members of the Panel of Experts, for their very valuable contributions. I also express my thanks for the useful inputs given by the CMDs of CPSEs who participated in the deliberations in the meetings convened for this purpose and also for the written responses by other CPSEs. I wish to specially thank Shri Arun Maira, Member, Planning Commission for his valuable guidance to the panel from time to time. I also wish to put on record my appreciation for special contribution and the sincere efforts made by Dr. Renu Singh Parmar, Adviser (I&VSE), Planning Commission (and Convener of the Panel), Shri Sudhir Kumar, Dy. Adviser, Planning Commission and their team of officers in the Planning Commission. Special thanks are also due to Dr. Sharat Kumar, Economic Adviser, Department of Public Enterprises and his team of officers for extending all the support to the Panel.

(S.K. Roongta)

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PREFACE

The history of public sector enterprises in India can be broadly categorised in three phases. These phases reflect the ideology of the relevant political leadership at the time and the economic compulsions of the State. Each phase can be roughly characterised as lasting 15 to 20 years each. These are briefly discussed below.

Phase 1 – 1950-69. In this phase seeds were laid to build modern India with a strong industrial base. It required a very strong and indigenous capital goods sector for India to make it self-sufficient in the long run. The growth models of the time were heavily influenced by the economic growth models, namely, the Harrod-Domar model and the Feldman-Mehalonobis model. The latter development model broadly argued for the creation of a strong indigenous capital goods sector, which could not, however, be undertaken by the then India's fledgling private sector. It was in response to this that the State stepped in with a vision of a mixed economy approach, in which both the public sector and the private sector had roles to play.

Phase 2 – 1969-1984. In this phase, public sector enterprises were seen as an instrumentality of the State. The State also nationalised private sector companies (e.g. coal mining where safety norms were below standards). Along with a strong import substituting industry (ISI) development policy and the policy of licencing for industries, monopolies got created both in the public and the private sectors. The ISI model sought to make the country self-sufficient. High tariffs were also imposed on imports to help the domestic industry grow. Growth of private sector enterprises was also heavily regulated through licensing, import controls, and MRTP regulations. Since profit was not a key lever of performance for CPSEs and attention was paid more to adherence to rules, there was an in-built bias against risk taking. By the early 1980s, it had become clear that the government could not support the CPSEs at their prevailing level of economic performance.

Phase 3 -1984 to present day: The reforms of 1991, inter-alia, aimed at improving efficiencies in the public sector enterprises and reducing the fiscal deficit. Moreover, post 1991 reforms, the sectors retained exclusively for the public sector were progressively reduced; even in sectors where they enjoyed monopoly, competition was introduced. The public sector was increasingly told to cut its dependence on the Government and get listed on the stock exchanges for raising funds from the capital markets. A few public sector enterprises were also privatised during this period.

Phase-4: There is an important need for the fourth phase of CPSEs reform, as many sectors have lost out in global competition and have declined. As a nation, we need to reflect if their absence causes us any long term vulnerability. Should India not have a strong presence in manufacturing, may be, defense, nuclear power, specialised capital goods industries, green technologies and the like? How could the government get an efficient Indian presence in these sectors where the private sector investments are not forthcoming? There is, therefore, a need for initiating a nation wide debate as to what the new 'avatar' of CPSEs ought to be and how it should be structured.

SUMMARY OF RECOMMENDATIONS

1.0 CORPORATE GOVERNANCE ISSUES IN CPSEs

1.1 **The Committees of the Board of Directors**– The Panel recommends that it should be made mandatory for every CPSE to constitute a Strategy and Business Development Committee of the Board, besides the Audit committee, the Human Resources Committee and the Nomination and Remuneration Committee. The Strategy and Business Development Committee of the Board should meet at least twice a year to agree on plans and proposals and evaluate progress at the year end. The recommendations of the Strategy and Business Development Committee should be approved by the Board. It is suggested that the CPSE Board should have a strategy offsite once a year to set direction for the company towards diversification, acquisition, joint ventures, new business entry and review of organisational structure etc. The annual report of the CPSE should mention highlights of this review, without revealing any competitively sensitive information.

1.2 **Board Evaluations** – It is recommended that CPSE Boards evolve a system of annual self evaluations. This could first begin with Maharatna/Navratna companies. These evaluations should be done internally, commenting on the Board's view on the effectiveness of its own functioning.

1.3 **Board Composition** – The issue of separating the posts of Chairman and Managing Director was considered. The Panel is of the view that CPSEs may continue to have a combined post of Chairman & Managing Director. The Panel also feels that the consequent structure of the Board need to have fifty percent of the Board members, as independent directors, as per the present guidelines.

1.4 **Government Directors' Role -** It is recommended that there should be a separation in the role of a Government nominee on the Board from their position in the Government of India (viz, as Joint Secretary / Additional Secretary to the Government of India). On all issues where the Government has no specific views, the role of the Government Directors should be akin to those of the Independent Directors. Any official views of the Government could be conveyed in writing to the CPSE Board or get recorded accordingly by the Government Directors during the Board meetings.

(a) Accordingly, the Panel believes that the Government Directors should also be paid sitting fees for attending the Board / Committee meetings.

(b) In the Annual Performance Appraisal of Government of Directors, certain weight should be assigned to their performance as Director(s) on the Boards of CPSE(s). One objective measure of the same could be the overall performance of the concerned CPSE during the year.

1.5 **Selection of Independent Directors**- The Panel observed that Boards often lack domain expertise. There are also delays in the appointments of independent directors and the CPSE itself has very little say in determining as to who sits on their Boards. The Panel, therefore, has made recommendations, as under, in respect of selection and appointment of independent directors.

(a) The DPE/PSEB should formulate a panel of approved names out of which independent directors may be appointed. This list should be updated every six months.

(b) Apart from the administrative ministries, CPSE Boards may also suggest names for consideration as independent directors. The full-time CEOs from successful enterprises willing to serve in these positions, may also be considered for appointment as independent directors on the CPSE Boards, provided there is no conflict of interests. CMDs and whole-time Directors of CPSEs should also be considered for independent director positions in other enterprises, including in other CPSEs.

(c) The present age limit of 65 should be relaxed to 70 for independent directors.

(d) The nomination committee of the Board should identify the knowledge gaps existing in the Board of the CPSE. On the basis of these identified gaps, the committee should shortlist suitably qualified candidates from the approved panel of independent directors for the CPSE Boards.

(e) The names recommended by the nomination committee and approved by the Board may be sent by the CMD directly to the Search Committee. To streamline and expedite the approval process, the Search Committee's recommendations may be sent directly to DOPT, with a copy to the administrative ministry. If, the administrative ministry has any reservations, it could send the same directly to the DOPT within a specified period (say 15 days).

1.6 **Board level appointment in time bound manner -** The Panel believes that there is an urgent need to streamline the process of appointments of CMDs and whole time Directors on CPSE Boards. The current system is slow and has scope for the vigilance clearance mechanism to be misused as an instrument by the vested interests to prevent appointments and/ or to delay the process. There is thus an urgent need to streamline the system of obtaining vigilance clearances. The Panel recommends the following steps to help streamline the process:

(a) The CVC should place its database of directors / personnel examined and accorded vigilance clearances, online and the database should be updated regularly.

(b) The vigilance clearance process should begin at the time of receipt of applications / short-listing of candidates for interviews. After selection is completed by PESB, there should be no hold up on account of vigilance clearances.

(c) After the notification of a vacancy, no anonymous complaints should be accepted about any candidate in the zone of consideration for the vacancy. Such complaints often are used as a tool by the vested interests to sully the chances of specific candidate(s), after the selection process has begun.

1.7 **Selection of CMDs / CEOs** - The Panel believes that there is need to segregate the appointment of CMDs of 'Maharatna and Navratna CPSEs' from the current process. These CPSEs are critical to the economy and need to have a system that builds in appropriate succession planning, apart from speedy appointments so that performances of these companies do not get hampered. The Panel makes the following specific recommendations relating to the process of selection of CMDs of Maharatna and Navratna CPSEs:

(a) A separate specialised body be constituted within PSEB exclusively for the selection of CMDs / CEOs of Maharatna and Navratna CPSEs. The criteria for selection should have greater emphasis on the leadership qualities, strategic thinking, capabilities to manage external environment etc. apart from the domain / sectoral expertise.

(b) Appointment of CMDs should be made three months before the term of the incumbent CMD of CPSE is to expire.

(c) To strengthen the process of selection, a self assessment report should be required to be filed by all the candidates, inter alia, incorporating his / her achievements and his / her vision for the company.

(d) The selection panel should include two outside experts.

(e) In all such cases vigilance clearance process should be as mentioned in para. 1.9. The Panel recommends that the vigilance requirement for appointment as Directors / CMDs of CPSEs should be the same as is required for the empanelment / appointment of Joint Secretaries / Additional Secretaries / Secretaries to the Government of India.

(f) An update should be provided in every session of Parliament on the vacant positions of CMDs of CPSEs, to create transparency around this important aspect.

1.8 **The Tenure of CMDs / Functional Directors** - The Panel strongly believes that the tenure of CMDs / Directors in CPSEs be a minimum of 3 years, irrespective of their age at the time of first appointment. The criteria for executives to have a minimum of two years of service remaining on date of vacancies for functional directors / CMDs, needs to be dispensed with, as in the absence of adequate succession planning in many CPSEs as of now, several competent executives don't get considered for these positions. Consequently, it is leading to lack of appropriate competencies and low motivation at the highest levels in many companies. It is recommended that all the executives who don't attain the age of superannuation on the date of vacancy may be considered eligible relating to age qualification. Those selected for such positions may be given a fixed tenure of five years or allowed to serve until the age of 63 years, whichever is earlier. This will ensure that the functional directors / CMDs have

a minimum tenure of 3-5 years, depending upon their age at the time of their assuming charge.

1.9 **Vigilance Management in CPSEs**

1.9.1 CVC in a draft National Anti-Corruption Strategy in November, 2010, has proposed a vigilance framework based on proactive vigilance in Public Sector Undertakings. CVC recognises that vigilance in public sector is basically a managerial function. CVC proposes to adopt a 'risk management approach' based on the premise that corruption risks can be managed in the same way as other risks.

1.9.2 The Panel felt that the fear psychosis relating to vigilance functions is leading to risk aversion in CPSEs and inhibiting their performance. The Panel **recommends** the following steps to improve the vigilance administration and decision making process in CPSEs:

(a) A vigilance frame-work that recognises that vigilance as a function is to be primarily performed by the management, needs to be evolved in consultation with CVC.

(b) In the intervening period, internal vigilance clearance should not be left to CVOs of CPSEs. The CVOs can give their recommendations to Chairman / CMD pertaining to vigilance clearances of Functional Directors. The vigilance clearance for CMDs may be routed through the respective Boards.

(c) There is need to involve CPSE officers in the Vigilance functioning at CVO level. Instead of CVOs being brought in on short-term deputations from outside, CVC may maintain a panel of CPSE executives at the level of Executive Directors / Directors, who could be considered for the positions of CVOs in CPSEs. The selection of CVOs, thereafter should be made out of this panel.

(d) An 'internal committee' be constituted in CPSEs to examine disciplinary cases, before deciding to initiate departmental proceeding against an officer.

(e) Vigilance scrutiny both within the organization and by CVC/CBI should have a clear distinction between cases of conscious and deliberate acts of granting an undue favour vs. cases which involve a procedural lapse. The Panel suggests that wherever there is a deliberate and mala-fide act of decision for a gain, severe and swift action should be taken. However, where procedural lapses have occurred, decisions have been taken without approval of competent authority, or there is case of negligence / incompetence, the Panel recommends that in such cases, administrative action and not any vigilance action should be initiated. The administrative action may, where considered necessary, involve formal disciplinary proceedings and even warrant termination from service if considered appropriate. But these need to be management decisions, outside the purview of vigilance mechanism.

(f) With regard to senior level commercial/tender/contract management decisions which are now becoming increasingly complex, there is a need to create within the CVC, an independent panel of persons of proven integrity but with some domain knowledge, from whom prior advice in certain matters can be taken. There is a growing culture of indecision and attitude of playing safe, flowing from an environment of suspicion and easy presumption of guilt while complaints are being entertained and dealt with. This can be reversed only with some strong signals that the Government wants a change in this approach.

1.10 Statutory Audit in CPSEs

1.10.1 The C&AG should bring out an annual report about best practices prevailing in diverse fields in different CPSEs, as observed in the process of performing the 'Oversight Functions' and the same should be shared with other CPSEs. This will not only help the CPSEs to learn from each other to improve their performances, but will create a positive mindset about the role of C&AG among the CPSEs.

1.10.2 The audit of C&AG, may also cover important cases of indecision and / or delayed decisions, either due to system lacunae or lack of decision making at individual / collective levels. This will help in bringing into sharper focus the costs of such delays, and help in fostering a positive culture relating to faster decision making within the enterprises.

1.11 Article 12 of the Constitution and CPSEs

1.11.1 Considering the impact of CPSEs as deemed to be covered under 'State' on the entire functioning of these Enterprises, the Panel feels that it is appropriate time to revisit the issue in its entirety.

2.0 HUMAN RESOURCE STRATEGY FOR CPSEs

2.1 **Manpower Planning Strategy** – The Panel believes that there is an imperative need for every CPSE to conduct a comprehensive manpower planning exercise. In this process, it should identify the key skills and talent requirements across all levels within the organization from a medium and long term perspective. This would include but not limited to an evaluation of its demographic ageing pattern, future skill requirements, current competence levels with the organization and the resultant recruiting requirements, including identifying in-house talent pools available to fill these gaps.

2.2 **Building of Organization & Succession Planning** – The Panel believes that it is critical for every CPSE to align its organizational structure and roles to its business objectives. This would require that CPSEs also develop a leadership pipeline for its key positions, and to create a leadership development strategy, with need to chart out a clear career path for each unique role. Within the next year, all CPSEs should be mandatorily asked to draw up an enterprise level specific succession plan, duly considered by their respective Boards.

2.3 **Filling Immediate Gaps –** Due to the gaps in compensation levels vis-a-vis the private sector and the demographic profile, some CPSEs currently lack experienced personnel in some important functions. The Panel recommends that extension of service upto a maximum two years may be allowed at the levels of DGM and above, only for executives with excellent service records. This should be based solely on specific needs of the enterprise, and prevailing skill gaps subject to some stringent conditions. These conditions should be approved by the Board of concerned CPSE. Some of which should be as under:

(a) The executive concerned should have been rated in to the top two gradings in their ACRs, consistently in the six preceding years.

(b) There should be a clear skill gap existing within the organisation. The executive should not be eligible for further promotion during the extended period.

(c) Such extension should be limited to a maximum of 3% of the total positions available in the respective grades.

2.4 **Recruitment –** The Panel believes that there is a pressing need to provide autonomy to CPSEs to devise their own recruitment policies for all positions below the Board level. The Panel suggests the following in the area of recruitments in CPSEs:

(a) Powers to create below Board level posts in CPSEs, which do not depend on budgetary support by the Government, be delegated to the respective CPSE Boards.

(b) In the next one year, CPSEs may be advised to prepare a medium/long term plan for the number of vacancies they need to fill through lateral recruitment at different levels, especially where they are venturing into new and diversified businesses, where internal expertise may be inadequate/missing. These plans need to be duly considered and approved by the respective CPSE Boards.

(c) Besides lateral recruitment, it is suggested that deputation from one CPSE to another for a maximum tenure of five years, in entire career of a CPSE executives be provisioned. This may be a win-win proposition for both parent & receiving organizations to help meet specific talent deficit, implementation of new ideas/project, manpower rationalization and executives would also get exposure to different organizations / sectors.

(d) The management of each CPSE may formulate explicit retention policies for their organizations, and get the same approved by their respective Boards.

(e) The CPSE should create multiple access points for induction, to meet their talent requirements.

(f) The CPSE Boards should be empowered to approve plan for engagement of specialists as may be required by the CPSE. It may also be authorised to allow engagement of such specialists on a contract basis, at prevailing levels of market related compensation.

2.5 **Compensation –** The Panel believes that the time has now come to empower CPSEs to formulate and set their own levels of pay and compensation policy. As this would be a big step from the present situation, it is recommended that it may be implemented over the next three to five years. The steps which can be taken to facilitate the shift are as follows:

(a) To begin with, only the fixed component of pay and compensation structure may continue to be based on the guidelines issued by DPE. The variable component of pay may be left open to the respective CPSE Boards to determine, based on its performance, resources, profitability and sectoral needs.

(b) Variable component which is currently pegged at 5% of profit before tax (PBT) is considered inadequate and this may be revised up to 10% of PBT.

(c) Variable pay should be based on a robust internal performance evaluation system and should be delinked from the current standard formula (applicable to all CPSEs).

2.6 **Criteria for Board positions** -In the absence of succession planning, highly competent officers in CPSEs are many times not left with 2 years or more of service when posts of functional directors/CMDs fall vacant. As a consequence, CPSEs lose the benefit of getting this pool of talent to occupy the deserving Board level posts. Quite often, these competent executives lose their motivation while serving for rest of their tenures. Pending formulation and implementation of succession plan in CPSEs, the existing eligibility criteria of a minimum of 2 years of service left (on the date of vacancies) for applying for Functional Director/CMD may be dispensed with.

3.0 REVIEW OF MEMORANDUM OF UNDERSTANDING (MOU) SYSTEM IN CPSEs

3.1 **Continuation of MOUs** – The present MOU system was conceptualised when CPSEs were operating in a regulated environment. The Panel believes that the current MOU system needs basic changes to make them more effective not only for evaluation of the business performance of CPSEs but also to give direction to their businesses. The MOUs also need to be greatly related to the organization's approach towards diversification, acquisition, formation of JVs, new/strategic businesses, usage of ICT, R&D initiatives, HR development and organizational changes etc. Instead of having standard parameters applicable for all CPSEs, individual CPSE Boards may formulate MOU proposal with emphasis on the above mentioned factors. The MOUs also need to be delinked from Performance Related Pay (PRP) as mentioned in the earlier section.

3.2 Physical performance parameters, if included in MOUs should be benchmarked with industry parameters including the private sector. International Benchmarks may also be identified for specific sectors (considering international enterprises operating at comparable levels in similar economic environment). The CPSEs may be encouraged to reach / emulate these benchmarks, within a definite time frame, with specified progress to be achieved each year.

4.0 JOINT VENTURES, PUBLIC PRIVATE PARTNERSHIPS AND PROCUREMENT

4.1 **Board Empowerment in Respect of JVs/PPP** – The Panel recommends that greater autonomy be given to CPSE Boards for selection of consultants, vendors with proprietary technologies, technology partners, JV partners and companies for acquisition. CPSEs require more flexible selection / search processes and also provision for negotiated settlements, wherever necessary. In the absence of clear guidelines to this effect, it is unlikely that CPSE managements would be able to achieve notable successes in these areas.

4.2 **Partnerships** – Where there is a specific need to enter into, a partnership in line with the strategy approved by the Board, an 'in principle' clearance be taken in advance from the administrative ministry. Thereafter, the following steps may be adopted for finding partners:

(a) Possible partners to be pre-identified and their market position and attractiveness be estimated and ranked.

(b) A committee empowered by the Board of the CPSE should be permitted to negotiate with these pre-identified partners within a set of parameters. One/two member(s) of the Board could be part of the committee so empowered.

(c) The empowered committee should obtain the formal approval of Board (within delegated financial power) on its recommendations before the deal is finalised.

(d) The deal approved by the Board should not be opened for investigation / review unless clear evidence of the wrong doing / corruption has come to light.

(e) In respect of matters beyond the delegated financial powers of the Board, CPSE may obtain an approval from the 'Standing Empowered Committee' (which needs to be constituted by the Government on forming partnerships / JVs in CPSEs).

4.3 **Joint Ventures** – The same policy as proposed for Partnerships should be followed in respect of Joint Ventures that a CPSE needs to enter.

4.4 **Procurement** – The policy in respect of procurement needs to recognise the complexity of operating in a changing environment where speed is the essence. The suggestion made by the Panel that there is a need to create within the CVC an independent panel of persons of proven integrity, but with some domain knowledge to be able to give their prior advice in matters which are now becoming increasingly complex, is crucial. Major contracts above a specified threshold, may be pre-audited through a mechanism within a defined timeframe.

4.5 **Listing** – The Panel recommends that at least thirty more CPSEs should be listed in the next three years, going up to fifty, in next five years. It is important

that the Government figure out a year-wise schedule, which is updated every year on a rolling basis for next five years in respect of proposed listing of CPSEs.

4.6 **Loss Making CPSEs** - The Panel also recommends that the Government should identify loss making CPSEs for disinvestment. If it is not intended to privatise such CPSEs, the Government could consider selling loss making CPSEs through auction, limited to other CPSEs, so that profit making CPSEs could bid for the same, especially to create new businesses, leveraging excellent infrastructure at the disposal of many of the loss making CPSEs.

4.7 **Land Bank**: The Panel also recommends that since many of our loss making CPSEs are having surplus land in excess of their current / future needs, it would be desirable to create a Public Sector Land Development Authority (PSLDA) (on the lines of the Rail Land Development Authority), for the purpose of developing such lands and unlocking their real value. The PSLDA would identity the excess lands and bid them to be developed commercially. The resources generated from development of excess land can be ploughed back for the business development of sick enterprises.

5.0 RECOMMENDATIONS ON TECHNOLOGY

5.1 **Technology policy for every CPSE:** Every CPSE shall have a technology policy, clearly indicating the commitment of the enterprise in using / sourcing / developing type of technology as per needs of the organization. There shall be a technology goal, substantiated with purpose and the plans of action for achieving the stated goal.

5.2 **IT Plan** - Every CPSE should be required to prepare an IT plan. This should involve a benchmarking of its extant technology levels and the preparation of a time bound plan for future, based on its strategic needs and benchmarking with the other public/private sector competitors in the sector. This plan should be approved by the respective Boards of CPSEs.

5.3 **Constitution of the technology committee**: A technology committee should be constituted in every CPSE, which may be part of the R&D Division. The Committee would be responsible for identifying technology requirements and finding alternate ways of developing or sourcing technology.

5.4 **R&D Budget**: R&D is construed as an activity that enhances the core competency of the enterprise. The current level of budget on R&D in many of the CPSEs is meagre. The R&D activity needs to be scaled up considerably by CPSEs, including the Maharatna and Navratna CPSEs. To begin with, Maharatna /Navratna companies be mandated to scale up their R&D budget progressively, up to certain specific levels, in the next five years.

5.5 **Institutional collaborations**: Internal research efforts need to be supplemented with joint research and collaborations. Enterprises must clearly prioritise the directions intended for internal research and joint R&D. CPSEs

should forge partnerships with CSIR, IITs and other national laboratories for R&D in desired technology areas.

5.6 **Centre for Innovation in CPSE**: There is a need to set up a Centre for Innovation to assist CPSEs in developing and implementing strategies to strengthen their technology base. The Centre would be collaborating with other agencies in technology sourcing, partnering, benchmarking and technology collaborations. The Government may consider setting up such a Centre.

6.0 TOWARDS A NEW PARADIGM

6.1 In chapter 7, the Panel has considered a vision for the future of CPSEs. The model that the Panel considered 'Towards a new Paradigm' provides a new conceptual paradigm. Though there wasn't unanimity in the Panel about the proposed model, but the Panel feels that there is a need to initiate a wider national debate now regarding the need, structure and other details of this new model.

REPORT OF PANEL OF EXPERTS ON REFORMS IN CENTRAL PUBLIC SECTOR ENTERPRISES

CHAPTER 1: INTRODUCTION

1.1 India adopted the mixed economy approach to development that allowed for the role of both public and private sectors. In view of massive poverty all around, on the eve of the First Five Year Plan, the major concern of economic planners was that of augmenting investment in the economy for higher growth. Public sector investment, in this scheme of things, has often been the residual investment. An added advantage of a growth model based on public sector investment has been that it is more inclusive and equitable. However, unless these entities are managed well, they can cease to be sustainable and may become a liability for the State.

1.2 Most of the public sector enterprises were, moreover, set up as companies, and are observed to have been moulded on the corporate practices in the (best) private sectors. Public sector enterprises are, nonetheless, distinct from private sector companies as they are subject to the general financial rules (GFR) and other rules applicable in the Government. They are also required to be seen as 'fair' to one and all in matters of purchase, sales, and recruitments etc. At the same time, these enterprises are very distinct from the departmental undertakings. Unlike the departmental undertakings, they do not have a claim on the consolidated fund of the State and their earnings likewise remain with them (in their accounts) rather than deposited in the consolidated fund of the State.

1.3 At the time of independence, there was severe lack of capital in the country and entrepreneurship was also lacking. It was, moreover, decided to set up large scale industries in the capital goods sector, primarily in the public sector. The government also resorted to deficit financing to raise resources despite the fear of inflation. Bold initiatives were taken and a number of public enterprises in the heavy industries, steel, hydro-carbon, nuclear power and fertiliser were set up under the various Five Year Plans. These enterprises were called upon to serve multiple objectives. Higher turnover and higher profits did not reflect all, in the context of priorities of these enterprises. Management in the public sector enterprises has therefore been a greater challenge. In spite of these limitations, these entities have contributed greatly in building a new India.

1.4 At the same time important to note that public sector enterprises are not unique to India. Public utilities and defence industries have traditionally been in the public sector, the world over. There is significant presence of public sector enterprises/State owned enterprises today in terms of investment and employment in France, Italy, Greece, Korea and Finland amongst the OECD countries and China and Russia outside this group. Many private sector enterprises when went into losses for various reasons, had to be taken over and brought under the fold of public sector.

1.5 A major demand of public sector enterprises/ state owned enterprise (SOEs) has been to provide them a level playing field with the private sector. Since the SOEs have been set up mainly at the initiative of different Ministries / Departments, they generally come under the overall control of the administrative ministries. It is, therefore, not clear to others whether the enterprise is run by the Board of Directors (of the company) or by the Ministry. Various Expert Committees examined this issue in the past and came up with different recommendations. One such recommendation has been to introduce "the MoU system" to accord greater autonomy to the these enterprises and minimize the control of the Ministry.

1.6 The ownership functions of the Government vis-à-vis the SOEs/public sector enterprises has been revisited in recent years, by most countries. Traditionally, the SOEs have operated under the 'decentralised' or 'Sector Ministry' model, whereby the SOEs are under the control of the sector Ministry. A perpetual problem under this approach has been the difficulty to distinguish whether the SOE is run by the Ministry or it is Board of Directors driven. It has been observed that in the initial phase of their establishment, the SOEs served the sectoral objectives. Over time, there are other players (other than SOEs) to address the sectoral objectives.

1.7 Consequently, the primary objective of the SOEs is to serve the commercial objectives of higher turnover and higher profits. In this phase of SOE development and in view of the sweeping changes taking place on account of globalization and the ensuing competition, the SOEs are increasingly being brought under a coordinating Department/Ministry, also called 'the Single Ownership Entity'. The 'Single Ownership Entity' model or 'the Centralised Model' has thus been adopted by countries as varied as France, Norway, Sweden, Poland, Netherlands and China. In comparison to 'decentralised' and 'centralised' models, the 'dual model', operates on the principle of one ministry being 'more equal than others'. Often, it is the Ministry of Finance that performs the task of laying down the broad guidelines for the running of SOEs. The 'Sector Ministry', oversees the SOEs based on these broad guidelines. Very often, this is, due to the power and importance of the Ministry of Finance, rather than by design. A typical case is that of New Zealand, where the dual ownership of SOEs arises from the shareholding pattern of SOEs, with each of two ministries owning half the share /equity.

1.8 In this respect, the Indian case is also unique. The Sector Ministries exercise the oversight role over the concerned CPSEs, followed by the Department of Public Enterprises that formulates the broad guide-lines on a number of policy issues common to all the CPSEs. Further, the Ministry of Finance lays down the disinvestment (and dividend) policy for CPSEs. In addition, the Public Sector Enterprises Selection Board (PESB) under the Department of Personnel & Training advises the Government on appointments to top management posts at the Board level in CPSEs.

1.9 On the issue of defining afresh the ownership function of Central Public Sector Enterprises, however, there was no unanimity of views. The Panel therefore

focused on other issues as enumerated in the Terms of Reference (Appendix-1). In regard to Government-CPSE interface, however, the Panel deliberated upon statutory audit, vigilance and RTI. In addition, the focus has been on time bound appointments on the Boards and evaluation of Board of Directors. In regard to HR Policy, the recommendations relate to Board level & below Board level recruitment policy, succession planning and pay & compensation package of employees.

1.10 On the MoU system, the focus of the Panel has been on the re-orientation of approach to the target setting and performance evaluation. The Panel, furthermore, notes the neglect of Research & Development in CPSEs and recommends for a more holistic approach. On JVs and Public-Private-Partnership (PPP), the recommendations lay emphasis on removing the existing irritants and for making the relevant rules for CPSEs more 'business friendly'. The broad thrust of the recommendations is to make the CPSEs more proactive and result oriented to take advantage of greater opportunities in the global market.

CHAPTER 2 : CORPORATE GOVERNANCE ISSUES IN CPSEs

2.1 The Central Public Sector Enterprises (CPSEs) are a distinct group in the corporate sector. Since they are SOEs, they do not have the same conflict of interests between 'the shareholders' and 'the management' as witnessed in private corporations. Neither do they have the fear of 'take over' by predators in the market since they are either wholly owned or majority owned companies of the Government.

2.2 The issues of Corporate Governance have acquired great importance both in public and private sectors. Guidelines on Corporate Governance for CPSEs were initially issued by Department of Public Enterprises in June, 2007 for an experimental phase of one year. These Guidelines were voluntary in nature for the year 2008-09. After review, the Government decided to continue these guidelines on mandatory basis with minor modifications. Proper implementation of these guidelines would protect the interests of shareholders and stakeholders. The governance framework of corporate sector is also going to be more rigorous and aligned to global best practice as per the provision of Companies Bill, under finalisation.

2.3 The guidelines on Corporate Social Responsibility (CSR) for CPSEs were brought out in April, 2010. Corporate Social Responsibility is a company's commitment to operate in an economically, socially and environmentally sustainable manner, while recognising the interests of its stakeholders. This commitment is beyond statutory requirements. Corporate Social Responsibility is, therefore, closely linked with the practice of Sustainable Development.

Issue of 'Over Governance'

2.4 As companies, the CPSEs publish their annual accounts as per the Companies Act (1956). The CPSEs in India are, moreover, subject to the scrutiny of the Comptroller & Auditor General of India (C&AG), the Central Vigilance Commission (CVC), the administrative ministry and various parliamentary committees. They have now been brought under the ambit of Right to Information Act (RTI), as well. The CPSEs, have, therefore, been complaining of "Over Governance". Compliance to summons from various quarters comes at a heavy cost of time and money. Over governance, in turn, promotes conservative, cautious and risk averse organisational culture, with procedures being paramount and outcomes becoming secondary.

2.5 As corporate entities, CPSEs have to comply with all legal and regulatory processes as any private corporate entity. The additional issues of oversight arise because of their being public entities. Certain elements of over governance arise because of ambiguities in the roles of various stakeholders. One has to make a distinction between accountability for procedures/process and accountability for agreed performance/results. The issue of 'over governance, therefore, needs to be tackled by bringing in focus on performance related accountability so that CPSEs become more proactive and result oriented.

Strategy and Business Development committee

2.6 The Composition of the Board, role of Directors- more particularly the Independent Directors and Government Directors, and the mandated and non-mandated committees constituted by the Board and their functioning determine the overall governance. The Boards of CPSEs, particularly of listed ones, have been reconstituted with induction of independent directors. The functioning of listed CPSEs is, therefore, expected to be more robust. Nevertheless the issues particularly related to Board processes for development of strategies for long term competitiveness of CPSEs in different sectors need a relook.

2.7 **The Committees of the Board of Directors** – The Panel **recommends** that it should be made mandatory for every CPSE to constitute a Strategy and Business Development Committee of the Board, besides the Audit committee, the Human Resources Committee and the Nomination and Remuneration Committee. The Strategy and Business Development Committee of the Board should meet at least twice a year to agree on plans and proposals and evaluate progress at the year end. The recommendations of the Strategy and Business Development Committee should be approved by the Board. It is suggested that the CPSE Board should have a strategy offsite once a year to set direction for the company towards diversification, acquisition, joint ventures, new business entry and review of organisational structure etc. The annual report of the CPSE should mention highlights of this review, without revealing any competitively sensitive information.

Board and Board Evaluation

2.8 **Board Composition** – The issue of separating the posts of Chairman and Managing Director was considered. The Panel is of the view that CPSEs may continue to have a combined post of Chairman & Managing Director. The Panel also feels that the consequent structure of the Board need to have fifty percent of the Board members, as independent directors, as per the present guidelines.

2.9 All the OECD countries have provided for assessment of the performance of Board of Directors in their SOEs. Sweden, in particular, has three level evaluation that includes collective evaluation, evaluations of individual Directors and Chairman.

2.10 Following elements go into the evaluation at each of the three levels:

(a) *Collective evaluation includes the followings*:
  (i) integrity
  (ii) working climate,
  (iii) group functioning
  (iv) absence of rivalry
  (v) relevant expertise area
  (vi) quality of dialogue.

(b) *Individual Director's evaluation includes the followings*:

(i) knowledge of company's operations
(ii) understanding of the sector
(iii) attendance
(iv) concrete and original contributions
(v) team spirit
(vi) personal contacts
(vii) absence of conflicts of interest
(viii) good judgment
(ix) commitment

(c) *Chairman's evaluation includes the following*:

(i) leadership
(ii) strategic planning
(iii) external communications
(iv) relationship with the Board
(v) succession planning

2.11 **Board Evaluations –** It is recommended that CPSE Boards evolve a system of annual self evaluations. This could first begin with Maharatna/Navratna companies. These evaluations should be done internally, commenting on the Board's view on the effectiveness of its own functioning.

Selection of CMD's/CEOs, Tenure of CMD/Functional Directors, Selection of Independent Directors, Role of Government Directors

2.12 The Panel noticed that the functioning of many CPSE Boards is getting affected by the certain generic issues. The Panel considered the issues concerning selection of CMDs/CEOs, selection of Independent Directors, tenure of CMDs/functional Directors, appointments and role of Government Directors. The broad nature of the issues and the corresponding **Recommendations** are as under:

Selection of CMDs/CEOs and tenure of CMD/Functional Directors Appointments

2.13 Presently, the Public Enterprises Selection Board (PESB) undertakes selection of CMDs and functional Directors of Schedule-A to D CPSEs (and also for the uncategorised CPSEs). These CPSEs, in turn, are also categorised as Maharatna, Navratna and Miniratna companies, based on specified criteria and accordingly delegation of powers to their respective Boards vary. Considering that Maharatna/Navratna companies constitute a significant part of CPSEs in terms of turnover, profits and their overall strategic role, there is a need to separate the selection process for CMDs of Maharatna/ Navratna CPSEs (total 21 in number), from the existing one (which may continue for other CPSEs).

2.14 **Selection of CMDs / CEOs** - The Panel believes there is need to segregate the appointment of CMDs of 'Maharatna and Navratna CPSEs' from the current

process. These CPSEs are critical to the economy and need to have a system that builds in appropriate succession planning, apart from speedy appointments so that performances of these companies do not get hampered. The Panel makes the following specific recommendations relating to the process of selection of CMDs of Maharatna and Navratna CPSEs:

(a) A separate specialised body be constituted within PSEB exclusively for the selection of CMDs / CEOs of Maharatna and Navratna CPSEs. The criteria for selection should have greater emphasis on the leadership qualities, strategic thinking, capabilities to manage external environment etc. apart from the domain / sectoral expertise.

(b) Appointment of CMDs should be made three months before the term of the incumbent CMD of CPSE is to expire.

(c) To strengthen the process of selection, a self assessment report should be required to be filed by all the candidates, inter alia, incorporating his / her achievements and his / her vision for the company.

(d) The selection panel should include two outside experts.

(e) In all such cases vigilance clearance process should be as mentioned above. The Panel recommends that the vigilance requirement for appointment as Directors / CMDs of CPSEs should be the same as is required for the empanelment / appointment of Joint Secretaries / Additional Secretaries / Secretaries to the Government of India.

(f) An update should be provided in every session of Parliament on the vacant positions of CMDs of CPSEs, to create transparency around this important aspect.

2.13 **The Tenure of CMDs / Functional Directors** - The Panel strongly believes that the tenure of CMDs / Directors in CPSEs be a minimum of 3 years, irrespective of their age at the time of first appointment. The criteria for executives to have a minimum of two years of service remaining on date of vacancies for functional directors / CMDs, needs to be dispensed with, as in the absence of adequate succession planning in many CPSEs as of now, several competent executives don't get considered for these positions. Consequently, it is leading to lack of appropriate competencies and low motivation at the highest levels in many companies. It is recommended that all the executives who don't attain the age of superannuation on the date of vacancy may be considered eligible relating to age qualification. Those selected for such positions may be given a fixed tenure of five years or allowed to serve until the age of 63 years, whichever is earlier. This will ensure that the functional directors / CMDs have a minimum tenure of 3-5 years, depending upon their age at the time of their assuming charge.

2.14 **Selection of Independent Directors**- The Panel observed that Boards often lack domain expertise. There are also delays in the appointments of independent directors and the CPSE itself has very little say in determining as to who sits on their Boards. The Panel, therefore, has made recommendations, as under, in respect of selection and appointment of independent directors:

(a) The DPE/PSEB should formulate a panel of approved names out of which independent directors may be appointed. This list should be updated every six months.

(b) Apart from the administrative ministries, CPSE Boards may also suggest names for consideration as independent directors. The full-time CEOs from successful enterprises willing to serve in these positions, may also be considered for appointment as independent directors on the CPSE Boards, provided there is no conflict of interests. CMDs and whole-time Directors of CPSEs should also be considered for independent director positions in other enterprises, including in other CPSEs.

(c) The present age limit of 65 should be relaxed to 70 for independent directors.

(d) The nomination committee of the Board should identify the knowledge gaps existing in the Board of the CPSE. On the basis of these identified gaps, the committee should shortlist suitably qualified candidates from the approved panel of independent directors for the CPSE Boards.

(e) The names recommended by the nomination committee and approved by the Board may be sent by the CMD directly to the Search Committee. To streamline and expedite the approval process, the Search Committee's recommendations may be sent directly to DOPT, with a copy to the administrative ministry. If, the administrative ministry has any reservations, it could send the same directly to the DOPT within a specified period (say 15 days).

2.15 **Government Directors' Role -** It is recommended that there should be a separation in the role of a Government nominee on the Board from their position in the Government of India (viz, as Joint Secretary / Additional Secretary to the Government of India). On all issues where the Government has no specific views, the role of the Government Directors should be akin to those of the Independent Directors. Any official views of the Government could be conveyed in writing to the CPSE Board or get recorded accordingly by the Government Directors during the Board meetings.

(a) Accordingly, the panel believes that the Government Directors should also be paid sitting fees for attending the Board / Committee meetings.

(b) In the Annual Performance Appraisal of Government of Directors, certain weight should be assigned to their performance as Director(s) on the Boards of CPSE(s). One objective measure of the same could be the overall performance of the concerned CPSE during the year.

2.16 **Board level appointment in time bound manner -** The Panel believes that there is an urgent need to streamline the process of appointments of CMDs and whole time Directors on CPSE Boards. The current system is slow and has scope for the vigilance clearance mechanism to be misused as an instrument by the vested interests to prevent appointments and/ or to delay the process, There is thus an urgent need to streamline the system of obtaining vigilance clearances. The Panel recommends the following steps to help streamline the process:

(a) The CVC should place its database of directors / personnel examined and accorded vigilance clearances, online and the database should be updated regularly.

(b) The vigilance clearance process should begin at the time of receipt of applications / short-listing of candidates for interviews. After selection is completed by PESB, there should be no hold up on account of vigilance clearances.

(c) After the notification of a vacancy, no anonymous complaints should be accepted about any candidate in the zone of consideration for the vacancy. Such complaints often are used as a tool by the vested interests to sully the chances of specific candidate(s), after the selection process has begun.

Vigilance Management in CPSEs

2.17 There is a growing culture of indecision and playing safe in CPSEs flowing from an environment of suspicion and easy presumption of guilt. This needs to be reversed with strong credible signals in this direction. Currently, the CPSEs appoint the Central Vigilance Officers (CVOs) who are on deputation from the Government of India. In the case of schedule 'A' and Navaratna /Maharatna companies, the CVOs are Joint Secretary level officers. In schedule 'B', 'C', 'D' and uncategorised CPSEs, Director level officers are appointed as CVOs. The appointments in all these cases are made with the concurrence of CVC.

2.18 The CVOs role is both preventive and punitive, and he/she acts as a link with the CVC, CBI and the CPSE. The CVO is the head of the Vigilance Division. The salaries of CVOs and other functionaries on deputation (from other offices/institutions), are borne by the concerned CPSE. According to the latest decision of CVC, not more than 50% of the total strength of the vigilance functionaries/executives are to be taken on deputation basis.

2.19 Along with the vigilance in CPSEs (by the CVOs) based on several guidelines issued by the CVC, all CPSEs abide by Conduct, Discipline and Appeal (CDA) Rules. There is quite often an overlap between vigilance function and the CDA Rules. Implementation of CDA Rules is, moreover, best performed in-house by Director (HR)/CMD.

2.20 CVC in a draft National Anti-Corruption Strategy in November, 2010, has proposed a vigilance framework based on proactive vigilance in Public Sector Undertakings. CVC recognises that vigilance in public sector is basically a managerial function. CVC proposes to adopt a 'risk management approach' based on the premise that corruption risks can be managed in the same way as other risks.

2.21 The Panel felt that the fear psychosis relating to vigilance functions is leading to risk aversion in CPSEs and inhibiting their performance. The Panel **recommends** the following steps to improve the vigilance administration and decision making process in CPSEs:

(a) A vigilance frame-work that recognises that vigilance as a function is to be primarily performed by the management, needs to be evolved in consultation with CVC.

(b) In the intervening period, internal vigilance clearance should not be left to CVOs of CPSEs. The CVOs can give their recommendations to Chairman / CMD pertaining to vigilance clearances of Functional Directors. The vigilance clearance for CMDs may be routed through the respective Boards.

(c) There is need to involve CPSE officers in the Vigilance functioning at CVO level. Instead of CVOs being brought in on short-term deputations from outside, CVC may maintain a panel of CPSE executives at the level of Executive Directors / Directors, who could be considered for the positions of CVOs in CPSEs. The selection of CVOs, thereafter should be made out of this panel.

(d) An 'internal committee' be constituted in CPSEs to examine disciplinary cases, before deciding to initiate departmental proceeding against an officer.

(e) Vigilance scrutiny both within the organization and by CVC/CBI should have a clear distinction between cases of conscious and deliberate acts of granting an undue favour vs. cases which involve a procedural lapse. The Panel suggests that wherever there is a deliberate and mala-fide act of decision for a gain, severe and swift action should be taken. However, where procedural lapses have occurred, decisions have been taken without approval of competent authority, or there is case of negligence / incompetence, the Panel recommends that in such cases, administrative action and not any vigilance action should be initiated. The administrative action may, where considered necessary, involve formal disciplinary proceedings and even warrant termination from service if considered appropriate. But these need to be management decisions, outside the purview of vigilance mechanism.

(f) With regard to senior level commercial/tender/contract management decisions which are now becoming increasingly complex, there is a need to create within the CVC, an independent panel of persons of proven integrity but with some domain knowledge, from whom prior advice in certain matters can be taken. There is a growing culture of indecision and attitude of playing safe, flowing from an environment of suspicion and easy presumption of guilt while complaints are being entertained and dealt with. This can be reversed only with some strong signals that the Government wants a change in this approach.

2.22 **Statutory *Audit in CPSEs***

2.22.1 The C&AG should bring out an annual report about best practices prevailing in diverse fields in different CPSEs, as observed in the process of performing the 'Oversight Functions' and the same should be shared with other CPSEs. This will not only help the CPSEs to learn from each other to improve their performances, but will create a positive mindset about the role of C&AG among the CPSEs.

2.22.2 The audit of C&AG, may also cover important cases of indecision and / or delayed decisions, either due to system lacunae or lack of decision making at individual / collective levels. This will help in bringing into sharper focus the costs of such delays, and help in fostering a positive culture relating to faster decision making within the enterprises.

Article 12 of the Constitution and CPSEs

2.23 The substantive question relating to the constitutional status of Public sector enterprises was examined by the Law Commission. In its 145th Report submitted in 1992, the Law Commission concluded as follows:

- Such an amendment would not be a proper or necessary measure to be adopted for dealing with the difficulties that may be experienced by public sector undertakings in the matter of award of contracts, rejection of tenders, service matters and the like arising out of the present applicability of Article 12 to such undertakings.
- Having regard to the Preamble and total philosophy of the Constitution, even if such an amendment is made, some of the problems experienced by the public sector undertakings would still survive under the ordinary law.
- In particular, judicial intervention in the form of injunctions issued under the ordinary law cannot be ruled out, even after the suggested amendment.
- It is highly doubtful whether, in the light of the theory of non-amenability of the basic features of the Constitution as at present recognised, such an amendment will pass muster on the Constitution level.

2.24 The Group of Experts on Empowerment of CPSEs (April, 2005) (Chairman: Arjun Sen Gupta), in this context, observed that the far-reaching mandatory legal implications of Article 12 inhibit the functioning of CPSEs as commercial entities like similar companies in the private sector. In consideration of the foregoing position, the Group recommended that this issue could be revisited by the policy makers at an appropriate time in future.

2.25 The matter has once again become important due to the issue of 'over governance' in CPSEs. The CPSEs are also alarmed today on the account of RTI (2005) being used by rivals and disgruntled vendors / contractors to elicit information of confidential nature.

2.26 Considering the impact of CPSEs as deemed to be covered under 'State' on the entire functioning of these Enterprises, the Panel feels that it is appropriate time to revisit the issue in its entirety.

CHAPTER 3: HUMAN RESOURCE STRATEGY FOR CPSEs

3.1 Public sector HR professionals confront a variety of constraints relating to salary structure, promotion policy, support for capacity building and HR related Management Information Systems (MIS). The management, on the other hand, is confronted with the need for ever changing skills sets, higher efficiency standards due to increased competition and the need to retain talent in the face of attrition. A performance culture, nevertheless, needs to be inculcated in CPSEs. Productivity of resources both manpower and materials is going to play a major role in determining the success of CPSEs in future.

3.2 The CII-Hewitt Associates Macro Study, 2009 on 'Strategies for Attraction and Retention of Talents in CPSEs' identified three 'Glad' factors and five 'Concerns' for the employees of CPSEs and recommended a range of measures. *The 5 top 'Concerns' identified are:* lack of a level playing field with the private sector on account of too many controls interference and external influence, decision making is centralised and slow with inadequate authority down the line, people continue to do the same / similar job for years with or without promotion, the organizations produce managers and not leaders, and there is little or no incentive to strive with inadequate feedback on performance.

3.3 The Study notes that the challenges being faced by CPSEs are not the same as in case of private sector companies. Some of the recommendations on HR initiatives are:

(i) *Reposition the brand image*: Articulate and communicate the employee Value Proposition and create an explicit employee brand.
(ii) *Strategic Workforce planning:* Clearly identify key skills and talent requirements across levels from a long term perspective (3-5 years), and create multiple access points to some talent requirements.
(iii) *Create Performance Oriented Organization*: Facilitate strategy deployment to the last unit in the organization, and identify exceptions on both sides off the bell curve.
(iv) *Develop Leadership Pipeline*: Create a leadership development strategy and chart out career path for each unique role in organization.
(v) *Build and Strengthen Recognition Mechanisms*: Applaud and recognise contributions and efforts in order to motivate employees.
(vi) *Re-alignment of Learning and Development Systems*: Create integrated learning and development experiences aligned to business outcomes at each level.
(vii) *Manage the Hygiene Factors*: Identify and manage the demotivators and improve quality of life at work.

3.4 The Study nevertheless recognises different sets of HR initiatives for the different sectors of manufacturing, mining, electricity and services. They have, furthermore, recommended the following broad action plans for CPSEs:

(i) *Define Roles:* Create job descriptions for different roles in the organization and communicate to employees about the expectations from them.

(ii) *Create Organization and Function level Scorecard:* Based on MoU, create organization and function level scorecards and set the target for the year.

(iii) *Define Competency Model for the Organization*: Create a competency Framework for the organization clearly identifying competencies required for each role in the organization.

(iv) *Define the Performance of the Management Systems:* Create a robust performance management system (PMS) and define the framework, process, timelines, roles and PMS form. Communicate to all the employees about the new system.

(v) *Create Governance Mechanism*: Create a process and system for governance of PMS and performance related pay (PRP) as recommended by 2nd Pay Revision Committee.

(vi) *Create Capability Building Plan*: Design modules for capability building for different groups and implement it as plan.

3.5 Many issues concerning Human Resource Development though internal to CPSEs, have overriding influence on the performance of CPSEs. The emerging challenges calls for evolving HR practices that consider the dynamism of market place also.

3.6 Maharatna and Navratna CPSEs have been delegated powers for creation of posts up to certain level below the Board but the salary structure is determined by the DPE guidelines. Even these Ratna companies need to develop robust HR practices based on above factors.

3.7 Financially stressed CPSEs have practically no flexibilities to deal with the manpower related issues effectively. To address a part of the problem, in 2008, Government issued guidelines relating to incentives to those Chief Executives/Functional Directors of sick/loss making CPSEs who have contributed exceedingly well in turnaround of such CPSEs. It was expected that such incentives would enable the Government to attract Board level executives capable of turning around loss making CPSEs and ensure successful implementation of the revival plan.

Pay & Compensation

3.8 The Second Pay Revision Committee (2nd PRC), headed by Mr. Justice M. Jagannadha Rao, retired Judge, Supreme Court of India submitted its report to the Government on 30.05.2008. The committee in the preface of the Report expressed:

"A question that was repeatedly raised in our discussion with CPSEs was that 10 years are too long a period for pay revision in the public sector and that this time gap should be reduced to five years or so. Our general preference will be that once our recommendations have been given effect, the responsibility of future revision should be given to the Board of Directors of a company subject to the approval of the concerned Ministry in discharge of its role as shareholders. We

would like to see that we are the last such committee for deliberating on the remuneration structure in the public sector as a whole and that hereafter no such committee will be necessary. Revision can be considered by the Board of Directors and the concerned Ministry as and when necessary on the basis of the economic situation and the nature of the concerned industry."

3.9 The 2nd PRC also observed that there was a paradigm shift in Indian economy and the job market and CPSEs have ceased to be a career options for young Indians, coming out of premier engineering and business schools, for the following reasons:

- Compensation levels in CPSEs are far inferior to those available in private sector and MNCs.
- In an expanding job market, job security offered by CPSEs is no more relevant to bright individuals, who are hopping from job to job, looking for better prospects.
- With changing social values, jobs in civil services and CPSEs no more enjoy the prestige they used to enjoy in the yore.

3.10 The Panel discussed the compensation paid at various levels in the CPSEs in comparison to that in the private sector and observed that the compensation paid to the employees at junior levels in CPSEs is more than what is paid in the private sector at the same level. The compensation of mid-level employees is also generally at equal level. However, the compensation of employees at senior levels in CPSEs is much lower than what is paid in the private sector, resulting in migration to private sector especially when their experience and expertise is critically required by the CPSEs. This makes the CPSEs a training ground in many cases where substantial costs are incurred in training the employees, only to lose such talents to their competitors.

3.11 This also highlights the need for special measures for talent retention in CPSEs. Since retention needs and strategies may be different in different sectors, retention policies should be framed depending on the needs of the individual CPSEs. Such a policy should be endorsed by their respective Boards. In the light of the above, there is a need to give necessary autonomy to CPSEs in regard to their pay and compensation packages.

3.12 A good beginning has been made by way of introduction of variable component of pay/Performance Related Pay (PRP) linked to company and individual performance effective from 1.1.2007. Too restrictive guidelines have, however, been laid down in this regard. The Panel suggests that a process may be initiated which may facilitate smooth transition from a pay structure fully based on the guidelines issued by DPE to a pay structure independently determined by the respective CPSEs. As an interim measure, while the fixed component of the pay and compensation structure may be linked to the guidelines issued by DPE, the variable component may be left for CPSEs to determine based on their performance, resources and profitability.

3.13 Also, there is a shortage of experienced/ senior management personnel with expertise in CPSEs, especially in certain sectors. There is a need to devise a mechanism to deal with this issue particularly at senior levels (DGM & above) in CPSEs depending upon specific needs.

3.14 Historically, the CPSEs have been shy of lateral recruitment and most recruitment is at entry level only. In the current business scenario with needs/complexities of business undergoing fast changes, it may be important for CPSEs to induct talent through lateral recruitment at different levels by devising a judicious mix between internal and external expertise. This assumes greater significance in the context of CPSEs venturing into new and diversified business, where internal expertise may be inadequate or missing. CPSEs should be mandated to consider this aspect and draw up an enterprise specific medium/long term plan.

Human Resource Management- Recommendations:

3.15 Considering the need for change in Human Resource Management Practices and need for higher delegation in this matter, the Panel recommends the following:

3.16 **Manpower Planning Strategy** – The Panel believes that there is an imperative need for every CPSE to conduct a comprehensive manpower planning exercise. In this process, it should identify the key skills and talent requirements across all levels within the organization from a medium and long term perspective. This would include but not limited to an evaluation of its demographic ageing pattern, future skill requirements, current competence levels with the organization and the resultant recruiting requirements, including identifying in-house talent pools available to fill these gaps.

3.17 **Building of Organization & Succession Planning** – The Panel believes that it is critical for every CPSE to align its organizational structure and roles to its business objectives. This would require that CPSEs also develop a leadership pipeline for its key positions, and to create a leadership development strategy, with need to chart out a clear career path for each unique role. Within the next year, all CPSEs should be mandatorily asked to draw up an enterprise level specific succession plan, duly considered by their respective Boards.

3.18 **Filling Immediate Gaps** – Due to the gaps in compensation levels vis-a-vis the private sector and the demographic profile, some CPSEs currently lack experienced personnel in some important functions. The Panel recommends that extension of service upto a maximum two years may be allowed at the levels of DGM and above, only for executives with excellent service records. This should be based solely on specific needs of the enterprise, and prevailing skill gaps subject to some stringent conditions. These conditions should be approved by the Board of concerned CPSE. Some of which should be as under:

(a) The executive concerned should have been rated in to the top two gradings in their ACRs, consistently in the six preceding years.

(b) There should be a clear skill gap existing within the organisation. The executive should not be eligible for further promotion during the extended period.

(c) Such extension should be limited to a maximum of 3% of the total positions available in the respective grades.

3.19 **Recruitment –** The Panel believes that there is a pressing need to provide autonomy to CPSEs to devise their own recruitment policies for all positions below the Board level. The Panel suggests the following in the area of recruitments in CPSEs:

(a) Powers to create below Board level posts in CPSEs, which do not depend on budgetary support by the Government, be delegated to the respective CPSE Boards.

(b) In the next one year, CPSEs may be advised to prepare a medium/long term plan for the number of vacancies they need to fill through lateral recruitment at different levels, especially where they are venturing into new and diversified businesses, where internal expertise may be inadequate/missing. These plans need to be duly considered and approved by the respective CPSE Boards.

(c) Besides lateral recruitment, it is suggested that deputation from one CPSE to another for a maximum tenure of five years, in entire career of a CPSE executives be provisioned. This may be a win-win proposition for both parent & receiving organizations to help meet specific talent deficit, implementation of new ideas/project, manpower rationalization and executives would also get exposure to different organizations / sectors.

(d) The management of each CPSE may formulate explicit retention policies for their organizations, and get the same approved by their respective Boards.

(e) The CPSE should create multiple access points for induction, to meet their talent requirements.

(f) The CPSE Boards should be empowered to approve plan for engagement of specialists as may be required by the CPSE. It may also be authorised to allow engagement of such specialists on a contract basis, at prevailing levels of market related compensation.

3.20 **Compensation –** The Panel believes that the time has now come to empower CPSEs to formulate and set their own levels of pay and compensation policy. As this would be a big step from the present situation, it is recommended that it may be implemented over the next three to five years. The steps which can be taken to facilitate the shift are as follows:

(a) To begin with, only the fixed component of pay and compensation structure may continue to be based on the guidelines issued by DPE. The variable component of pay may be left open to the respective CPSE Boards to determine, based on its performance, resources, profitability and sectoral needs.

(b) Variable component which is currently pegged at 5% of profit before tax (PBT) is considered inadequate and this may be revised up to 10% of PBT.

(c) Variable pay should be based on a robust internal performance evaluation system and should be delinked from the current standard formula (applicable to all CPSEs).

3.21 **Criteria for Board positions** -In the absence of succession planning, highly competent officers in CPSEs are many times not left with 2 years or more of service when posts of functional directors/CMDs fall vacant. As a consequence, CPSEs lose the benefit of getting this pool of talent to occupy the deserving Board level posts. Quite often, these competent executives lose their motivation while serving for rest of their tenures. Pending formulation and implementation of succession plan in CPSEs, the existing eligibility criteria of a minimum of 2 years of service left (on the date of vacancies) for applying for Functional Director/CMD may be dispensed with.

CHAPTER 4: REVIEW OF MEMORANDUM OF UNDERSTANDING (MOU) SYSTEM IN CPSEs

4.1 The Memorandum of Understanding (MOU) system in CPSEs was introduced in 1986 based on the decision of the Group of Ministers (GOM) in their meeting held in December 1985. GOM decided that performance evaluation of CPSEs should be done by Government on the basis of MOU. It aimed to provide greater autonomy to public sector enterprise vis-à-vis control of the government. The 'management' of the enterprises is, nevertheless, made accountable to the government through promise for performance. The government continues to have control over these enterprises through 'a priori' supervision by setting targets in the beginning of the year and through 'performance evaluation' of achievements (vis-a-vis the targets) at the end of the year.

4.2 In 1988, the government constituted a High Power Committee (HPC) chaired by the Cabinet Secretary to monitor the performance of both parties to the MOU. This committee consists of only those Secretaries who are not signing an MOU themselves, such as Secretary of Finance, Planning Commission, Programme Implementation, Tariff Commission, Public Enterprises, Chief Economic Adviser and Chairman, Public Enterprise Selection Board. HPC has been from time to time giving directions in regard to the determination of the 'principles and parameters' for evaluating the performance of CPSEs. MOU composite scores and ratings are finalised by the Syndicate Group concerned of the Task Force on MOU.

4.3 Four CPSEs signed MOUs for the year 1987-88 and 11 for the year 1988-89. These were Air India, BHEL, HEC, HMT, Indian Airlines, Maruti Udyog Ltd., NTPC,ONGC, SAIL, MMTC and STC. In 1988, MOU emphasised what may be called static operational efficiency i.e. the efficiency in the use of resources at one's disposal at a given point in time. Even in this, they contracted on the quantitative aspect of performance and, thus, the list of criteria included only the easily measurable financial and physical targets. The 1989-90 MOU format differed from the 1988 format in major ways. Most MOUs in 1989-90 included measures of 'dynamic efficiency'. The dynamic indicators were related to 'Corporate Planning', 'Human Resource Development' and 'Marketing'.

4.4 MOU system was given broader thrust by the Government after the announcement of the New Industrial Policy of 1991 wherein it was highlighted that more and more CPSEs should be brought under its ambit.

4.5 Based on the report of National Council of Applied Economic Research (NCAER), the new MOU guidelines were issued on 31st December, 2003. NCAER added 'enterprise specific' and 'sector specific' parameters, over the earlier system. The weights of the principal components of parameters under these guidelines are: Static financial parameters (50%), Dynamic parameters (30%), Sector specific parameters (10%) and Enterprise specific parameters (10%). The 'enterprise specific' and 'sector specific' parameters are left for syndicates to discuss and specify. Besides the above modifications, the new approach allowed discretion to

the Task Force to change the weights of the different criteria under each of the Principal component of parameters. The guidelines were in vogue till 2009-10.

4.6 MOU guidelines 2010-11, based on the Ashok Chandra Committee, mandated inclusion in the dynamic parameters of Corporate Social Responsibility (5%), Research and Development (5%) and sustainable development (5%).

4.7 In 2005-06, 102 CPSEs signed MOUs. HPC in 2006 decided that all CPSEs including sick and loss making CPSEs would sign MOUs with Ministries/ Departments, and subsidiaries of a Holding Company will enter into MOU with the Holding Companies. The system became operative in 2007-08. As a result, more than 200 CPSEs signed MOUs with Ministries/ Departments in 2009-10 and 2010-11.

4.8 Along with the MoU system, there is the practice of Quarterly Performance Review (QPR) in various Ministries. This is often synonymous with reviewing the performance of CPSEs in regard to MoU targets. This is not in line with the spirit of the MoU system, which is designed to evaluate the performance only at the end of the year.

MoU Targets and Evaluation

4.9 The MoU system has now become a management tool. There are four steps involved in creating a performance evaluation system through MOU. These are: Criteria Selection, Criteria Weight Selection, Criteria Value Selection and Performance Evaluation. The basic principle is to set the annual targets based on the bottoms up approach, involving various divisions/units of the company. The *grading of the performance* under the MoU system is based on the composite score of weighted parameters ranked on a *5-point scale*.

Weights to financial and non-financial parameters

4.10 The extant MoU system is based on the balance score card methodology, giving equal weight to financial (50%) and non-financial targets (50%). As some CPSEs operate under Administered Price Mechanism (APM) and some belong to Section-25 companies or 'not for profit' companies, there have been requests that balance score card approach may be suitably modified.

4.11 The **Ashok Chandra Committee** set up by the Department of Public Enterprises (August 2008), which went into the issue of assigning weights to financial and non-financial parameters made the following recommendations:

(i) where an enterprise has to work in an Administered Pricing Regime, but is more or less working in a sector which is by and large reserved for the public sector, the weight for the financial parameters should be reduced to 40%,

(ii) CPSEs in the social / social-cum-financial sectors, the weight for financial parameters should be kept at 30%,

(iii) Section 25 companies may also have a weight of 30% for financial parameters,

(iv) In the case of other CPSEs, the existing allocation of equal weights (50%) to financial and non-financial parameters may continue.

Determination of Basic Targets

4.12 The extant MoU system is modelled on 'the signalling system'. This has been under implementation since 1989. It sets out five targets, which are graded on a 5-point scale of 1 (for 'Excellent), 2(for 'Very Good'), 3(for 'Good'), 4 (for 'Average') and 5 (for 'Poor'). Since the 'Good Target' is the middle point, it is also considered the 'Basic Target'. Gradings on either side of the Basic Target (BT) may be deviations by +/- 5 to 10%. Accordingly, while a +/-5% variation from BT will fall in the category of 'Very Good' or 'Average' category, a 10% variation from BT will fall in the category of 'Excellent' or 'Poor'. The moot question, therefore, is that of determination of Basic Target.

4.13 Under the extant MOU Guidelines, the Basic Target for financial parameters should reflect a 10% growth on the previous year. There are two issues, which require attention in this regard, as under:

(i) Is it proper to expect a uniform 10% growth in profits over a 10% growth in turnover, as profits are generally not as high as growth in turnover?

(ii) Is it proper to expect the same rate of growth from all CPSEs since the nature of business of one CPSE differs from another?

4.14 The fixing of basic target is one of the core issues. The Ashok Chandra Committee deliberated on this issue and observed that 'any such target must necessarily take into account the performance of a company in the last few years'. It further observed, 'the Committee is of the view that the most appropriate method would be to take into account the actual performance of the company in the previous five years. The best performance figure should be picked up. Simultaneously, the Standard Deviation (S.D.) for these five years should be worked out. The basic target (BT) would be sum of the figure of the best performance year plus twice the S.D. Once the BT and its location have been decided, the rest is more or less mechanical'. Ministries, however, expressed reservations on this recommendation for fixing the BT, as it was found difficult to achieve.

Revision of Targets

4.15 The 'signalling system' of MoU evaluation developed by Prof. L.P.Jones of Boston University (U.S.A) does not say much on revising the targets if the initial conditions undergo significant changes. The existing MOU guidelines also does not allow for revision of targets, once the MOUs are signed.

4.16 Taking cognizance of the same, the Ashok Chandra Committee observed, 'the Syndicate Groups must be given the flexibility to take into account various major developments (e.g. force majeure, government directives, scanty rainfall etc.) that could not have been foreseen and which leads to an impact that could in no other way be made up. The syndicate group would, however, need to ensure that allowances are given in the rarest of rare cases and that this does not become the means to explain away non-performance.

Financial Parameters

4.17 The choice of parameters is a very important decision for any enterprise. Since one financial parameter/financial ratio is not meaningful/ relevant for all the enterprises, there is a need to be careful while choosing the financial parameters as a guide for policy decisions or for performance evaluation.

Financial Parameters under 'MOU system'

4.18 Broadly, the financial parameters under the extant MOU evaluation are as shown below:

(a)	Financial Parameters		Weight (%)
	(i)	Gross Margin	8
	(ii)	Gross Sales	4
(b)	Financial / productivity Ratios		
	(i) Gross Margin /Gross block		2
	(ii) Net Profit / Net Worth		10
	(iii) Gross Profit / Capital Employed		10
	(iv) Gross Margin / Total Employed		7
	(v) Added Value / Sales		9
	Total		50

Note: The above parameters are based on the recommendation of National Council of Applied Economic Research (NCAER), New Delhi.

4.19 In regard to financial parameters the Ashok Chandra Committee observed, 'It also needs emphasizing the criteria, such as, Returns on Capital Employed (RoCE), Return on Asset (ROA), optimality of input and running costs and operational efficiency will require renewed focus. The nation has invested huge capital in the undertakings and can ill afford any relaxation of performance standards. Benchmarking to past achievements may not ultimately serve the purpose of moving towards new heights of excellence'. As there is always a scope for improvement, efforts may be continued to bring about necessary changes.

4.20 About 80% of the CPSEs securing 'Excellent' or 'Very Good' in 2006-07 to 2008-09, reflects a fault in the system beginning with the 'target setting' itself. Is there a limitation in entire approach? Further, in what manner the MOU would be a measure of performance when a unit suffers from a range of constraints. These are some of the pertinent questions. The Panel has not dealt some of these conceptual questions but fully recognise the advantages and limitations of the present system.

Recommendations:

4.21 **Continuation of MOUs** – The present MOU system was conceptualised when CPSEs were operating in a regulated environment. The Panel believes that the

current MOU system needs basic changes to make them more effective not only for evaluation of the business performance of CPSEs but also to give direction to their businesses. The MOUs also need to be greatly related to the organization's approach towards diversification, acquisition, formation of JVs, new/strategic businesses, usage of ICT, R&D initiatives, HR development and organizational changes etc. Instead of having standard parameters applicable for all CPSEs, individual CPSE Boards may formulate MOU proposal with emphasis on the above mentioned factors. The MOUs also need to be delinked from Performance Related Pay (PRP) as mentioned in the earlier section.

4.22 Physical performance parameters, if included in MOUs should be benchmarked with industry parameters including the private sector. International Benchmarks may also be identified for specific sectors (considering international enterprises operating at comparable levels in similar economic environment). The CPSEs may be encouraged to reach / emulate these benchmarks, within a definite time frame, with specified progress to be achieved each year.

CHAPTER 5: JOINT VENTURES, PUBLIC PRIVATE PARTNERSHIPS AND PROCUREMENT

5.1 A number of sectors, in post-independent India came to be exclusively reserved for the public sector. After the economic liberalization a number of these reservations have been done away with. This led to a sea change in the respective shares of investment of public sector and private sector (Table-5.1). Investment, in terms of Gross Fixed Capital Formation (GFCF) went up in the economy from 20.4 per cent of GDP in 1985-86 to 30.8 per cent in 2009-10. The share of private sector during this period likewise went up from 9.7 per cent in 1985-86 to 22.3 per cent in 2009-10. Increase in total investment in the economy was brought about primarily by the private sector (post economic liberalization).

Table-5.1
Gross Fixed Capital Formation

(as per cent of GDP)

Year	Public Sector	Private sector	Total	Annual GDP Growth (at constant price)
1985-86	10.7`	9.7	20.4	4.2
1991-92	9.8	12.3	22.1	1.4
1995-96	8.3	16.2	24.4	7.3
2001-02	6.5	16.3	22.7	5.8
2005-06	7.3	23.0	30.3	9.5
2009-10 (Q)	8.4	22.3	30.8	7.9

Source: Economic Survey 2010-11

5.2 The share of public sector investments came down from 10.7 per cent in 1985-86 to 8.4 per cent in 2009-10. Public sector investments are, however, as high as one-third of the total investments. There are, moreover, possibilities to further increase the public sector investment, which will only contribute towards a higher growth in the economy.

Public Sector and Private Sector

5.3 Through development of infrastructure, the public sector has been playing a catalytic role for private sector investments. A number of public sector enterprises in the marketing and financial sectors are 'promotional' and have been set up with the primary objective of developing the small and medium enterprises in the private sector. Many private sector companies which fell sick had to be taken over by the government and are today part of the public sector.

Joint Ventures (JVs)

5.4 The Boards of Maharatna, Navratna, Miniratna Category I and Miniratna Category II CPSEs have been empowered to make equity investments to establish financial joint ventures (JVs) with either a public sector partner (another CPSE/SLPE) or a private sector company (including MNCs) subject to

the ceiling of 15% of net worth of the concerned CPSE in one project and limited to a ceiling of Rs. 5,000 crore, Rs. 1,000 crore, Rs. 500 crore and Rs. 250 crore for Maharatna, Navratna, Miniratna Category I and Miniratna Category II CPSEs respectively. The overall ceiling on such investments in all projects put together is 30% of the net worth in all these cases. The ceilings are, however, considered limiting factors in large transactions.

5.5 Recently the delegated powers of Maharatna CPSEs for equity investment through Mergers and Acquisitions, in Joint Ventures/Wholly Owned Subsidiaries for acquiring raw material assets overseas have been increased from Rs.5000 crore subject to a ceiling of 15% of the net worth in a single project to Rs.5000 crore subject to a ceiling of 25% of the net worth. Whereas, Navratna CPSEs would be empowered to make equity investments up to Rs. 3,000 crore in a single project subject to a ceiling of 25% of the net worth.

5.6 The guidelines for Board of Maharatna and Navratna CPSEs to enter into technological Joint Venture and strategic alliances *inter alia* envisage the process to be transparent, the proposal to contain the evaluation in terms of commercial expediency and it should ensure synergy between production/business line of the two partners. Many Navratna and Maharatna CPSEs have entered into JVs taking benefit of the delegated powers. However, the full potential of the delegated powers do not seem to have been realised as the Boards seems to be reluctant to make themselves vulnerable to ex post scrutiny. It is perceived that Boards expect that business decisions (exercising delegated powers) should be afforded deference.

5.7 Many of the Maharatna and Navratna CPSEs operate in core sectors and need to find raw materials i.e mines or crude elsewhere. If we take a core sector like Oil and Gas itself, partnerships are key to upstream operations that may need to be undertaken in other countries. There are a variety of forms these arrangements can take. These can be through incorporated JVs or un-incorporated consortiums (whereby the State issues licenses to partners who develop and implement a Joint Operating Agreement).

Cumbersome process for entering into partnerships and JVs

5.8 The current procedure in respect to forming partnerships by CPSEs is very cumbersome and needs to be revamped so that they do not lose out to their competitors. CPSEs that need to enter into partnerships are required to issue a clear Expression of Interest (EOI) asking for partners to show interest. The supposed partners may, however, not even see the advertisement. The Joint Venture partners need to be persuaded to join hands. As of now, MNCs need to be persuaded by the Indian High Commission to respond to the EOIs. Such a requirement makes the CPSEs dependent on the active support of the Indian embassy officials abroad. Moreover, once the parties respond to the EOI, the CPSE is supposed to evaluate the EOI on the basis of clearly defined parameters, by a sub-committee of the Board constituted for this purpose. On the basis of the recommendation of this sub-committee, the Board approves the partnership, and only then the Ministry's/ Empowered Committee's approval is

taken. Under the extant rules, any bid brought by a Merchant Banker is typically ignored as this may open them to future investigation for not following due process.

5.9 The current procedure is ab initio self-defeating for other reasons too. By issuing an EOI, CPSE reveals a strategy that should not be disclosed to the outsiders. Very often, best partners don't apply and an inappropriate partner gets selected much to the long term detriment of CPSE's interests. The commercial nature of these transactions is ignored. Normally, these involve negotiations where competent parties take positions and try and get a better deal and then relax their positions in line with their interests. This is very hard to do when companies are required to bid and then offers are evaluated. The best bidders have much greater bargaining power and don't offer the best terms at the start. The poor and desperate bidders on the other hand often offer the best terms and then make it difficult to choose the right partners.

5.10 There is a need for simpler process with more latitude, if CPSEs are to have any chance of getting into good partnerships. An alternative process could be to require the company to formulate a 'strategy on partnership' in advance, and obtain the Board's approval. The CPSE may also get its 'strategy on partnerships' concurred in advance with the Ministry/Empowered Committee. In this strategy, possible partners should be pre-identified and their market position and attractiveness estimated and ranked. Thereafter, the CPSE should be free to negotiate with these companies on a set of parameters.

Appointment of Consultants

5.11 Under the existing rules, which are similar to the General Financial Rules (GFR), if the value for the services of the consultant exceeding certain limits, the CPSEs have to go in for competitive bidding. The bidding process involves inviting an EOI (sometimes globally) followed by Request for Proposal (RFP). The process exposes the strategic intent of the company much earlier and is detrimental to effective negotiations later with the potential partners.

Public-Private-Partnership

5.12 Public-Private Partnership (PPP) may be broadly classified under three heads, namely (i) service contracts, (ii) operation & maintenance contracts and (iii) capital projects, with operation and maintenance contracts. Unlike private ownership JVs, under PPP projects the Government /public sector continues to retain the legal ownership of assets. Accordingly, the private partner operates the project for a period also known as the concession period; the assets are transferred back to the government at the end of the concession period. Like the JVs, however, the PPP projects are governed by a contract or agreement between the two parties. Often, investments by the private sector is not made in long gestation infrastructure projects due to the perceived risk or uncertain demand. The government in such cases minimises the risk through 'risk sharing'. Such collaboration between the two also involves 'revenue sharing', and the partnership is a win-win situation for both. PPP projects are currently in their

infancy in India; there, however, appears to be a great potential for the same in the future.

5.13 The government has taken a number of initiatives to create an enabling environment for private participation in infrastructure projects through Public Private Partnership (PPP) projects. A mechanism for the appraisal and approval of PPP projects has also been institutionalised. A scheme for viability gap funding up to 20 per cent of capital cost of projects is also in place. In July 2009, Ministry of Finance laid down guidelines that are applicable in case where 'public sector entity' and a 'private sector entity' set up a Joint Venture Company to develop or implement any infrastructure project or services associated with it. With regard to JV, the guidelines have highlighted that the two parallel agreements (concession agreement and shareholders' agreement) often pose issues that are often more complex than those arising in case of JV that sells its output in competitive market and does not enter into other parallel agreements with the public entity. Overall, the guidelines convey the need to address issues relating to conflict of interest, accountability of public sector entity etc in such JVs. Appraisal of formation of JVs would have to primarily establish that objective that need to be achieved through JV cannot be met by any other means, and to see whether the objectives of public sector entity would be served better if grant is provided instead of equity in the JV.

5.14 In this broad policy framework, CPSEs can directly participate in all the infrastructure projects. A few projects have come also through JVs of CPSEs with private sector in transmission line and gas pipeline infrastructure sector.

Recommendations:

5.15 **Board Empowerment in Respect of JVs/PPP** – The Panel recommends that greater autonomy be given to CPSE Boards for selection of consultants, vendors with proprietary technologies, technology partners, JV partners and companies for acquisition. CPSEs require more flexible selection / search processes and also provision for negotiated settlements, wherever necessary. In the absence of clear guidelines to this effect, it is unlikely that CPSE managements would be able to achieve notable successes in these areas.

5.16 **Partnerships** – Where there is a specific need to enter into, a partnership in line with the strategy approved by the Board, an 'in principle' clearance be taken in advance from the administrative ministry. Thereafter, the following steps may be adopted for finding partners:

(a) Possible partners to be pre-identified and their market position and attractiveness be estimated and ranked.

(b) A committee empowered by the Board of the CPSE should be permitted to negotiate with these pre-identified partners within a set of parameters. One/two member(s) of the Board could be part of the committee so empowered.

(c) The empowered committee should obtain the formal approval of Board (within delegated financial power) on its recommendations before the deal is finalised.

(d) The deal approved by the Board should not be opened for investigation / review unless clear evidence of the wrong doing / corruption has come to light.

(e) In respect of matters beyond the delegated financial powers of the Board, CPSE may obtain an approval from the 'Standing Empowered Committee' (which needs to be constituted by the Government on forming partnerships / JVs in CPSEs).

5.17 **Joint Ventures** – The same policy as proposed for Partnerships should be followed in respect of Joint Ventures that a CPSE needs to enter.

5.18 **Procurement** – The policy in respect of procurement needs to recognise the complexity of operating in a changing environment where speed is the essence. The suggestion made by the Panel that there is a need to create within the CVC an independent panel of persons of proven integrity, but with some domain knowledge to be able to give their prior advice in matters which are now becoming increasingly complex, is crucial. Major contracts above a specified threshold, may be pre-audited through a mechanism within a defined timeframe.

5.19 **Listing** – The Panel recommends that at least thirty more CPSEs should be listed in the next three years, going up to fifty, in next five years. It is important that the Government figure out a year-wise schedule, which is updated every year on a rolling basis for next five years in respect of proposed listing of CPSEs.

5.20 **Loss Making CPSEs** - The Panel also recommends that the Government should identify loss making CPSEs for disinvestment. If it is not intended to privatise such CPSEs, the Government could consider selling loss making CPSEs through auction, limited to other CPSEs, so that profit making CPSEs could bid for the same, especially to create new businesses, leveraging excellent infrastructure at the disposal of many of the loss making CPSEs.

5.21 **Land Bank**: The Panel also recommends that since many of our loss making CPSEs are having surplus land in excess of their current / future needs, it would be desirable to create a Public Sector Land Development Authority (PSLDA) (on the lines of the Rail Land Development Authority), for the purpose of developing such lands and unlocking their real value. The PSLDA would identity the excess lands and bid them to be developed commercially. The resources generated from development of excess land can be ploughed back for the business development of sick enterprises.

CHAPTER 6: TECHNOLOGY MAPPING IN CPSEs

6.1 The pre-liberalization period saw R&D efforts in India directed towards assimilation of imported technology and development of indigenous technology in areas where technology transfer was difficult. The technical acquisition regime has been substantially liberalised and the decision on choice of technology is driven by commercial consideration by the enterprises. The domestic R&D effort are supplementary in nature except in a few strategic areas.

6.2 India's esteem as a technology hub in the world has gone up especially on account of the success in the IT sector. A combination of factors like the demographic dividend of a young population, growth of technical institutes and the advantage of an English speaking population contributed greatly to this achievement. According to some experts, however, the increase in productivity arising from application of IT in the different sectors has mostly gone to the rest of the world (developed countries) rather than to India.

6.3 At the governmental level, there has been a significant increase in R&D investment in space, atomic energy, defence and ocean development over the years. The spin offs of these R&D investments to the commercial sector has considerably increased in recent years; the space programme (of India) is the best example, which has benefitted immensely the telecommunications sector, meteorology, disaster management and watershed development in the country.

6.4 The technological success of a nation is deeply intertwined with its 'capabilities' for carrying out innovation and development of technologies that compete in the world market. Development of capabilities is a long term process, which requires a country to pass through different phases of learning, creating the required physical infrastructure, human capital, institutions that support these activities, and creating inter-linkages among them. Technology development and its optimal utilization has become an important organizational strategy in an environment where technology has become one of the key resources. In parallel, technology development is also influenced by the public policy and supporting institutions. The experience of some of the countries shows that existing segments of the industry can be strengthened as well new industries can be promoted even in the present multilateral institutional environment that restricts many of the previous development approaches. Improvement of institutional environment for innovation and technical development is a larger issue.

Technology: Policy, Institutional Environment and Organizational context

6.5 CPSEs have been instrumental in assimilation and introduction of diversified product and process technologies in India. In this respect they have played a pioneering role in many sectors. The deregulation of the economy and heightened competition has impact of varied nature on the CPSEs. The acquired technological strength has been one of the main factors that have given competitive strength to CPSEs to emerge as winner in the competitive market. Still, many CPSEs that have been at the forefront in introduction of critical technologies could not remain competitive after liberalisation.

6.6 Productivity improvement and cost cutting measures would no longer be giving sustained advantages. It has to be through innovation and breakthroughs, for which most relevant tool is no longer quality control or quality management. It is Knowledge Management in its broadest sense, which includes value creation or knowledge creation that is the most relevant.

6.7 Broadly, though CPSEs meeting some of the larger policy objectives largely operate in competitive environment without any complementary public policy support for technology development. In other words, the forces of globalization, liberalization, privatization, and technology change are combining to make life harder than ever for public sector enterprises. Therefore, competitiveness is becoming the key to growth of public enterprises in market-driven economy. For this purpose it is necessary to enquire whether Central Public Sector Enterprises are technologically competitive or not.

6.8 The product life cycle in many segments of industry is getting reduced because of rapid changes in technology. A very good example is the telecom sector, where the mobile phones have brought about a paradigm shift in the sector. The process of technology mapping identifies the trends and drivers influencing the industry / sector and the initiatives necessary in response to these trends and drivers. Technology mapping of so many sectors where CPSEs are operating is a tall order. Nevertheless, the technology related issues being of critical importance require consideration.

6.9 CPSEs have been generally endowed with skilled manpower. One fourth of the employees in CPSEs belong to the managerial and supervisory cadres, holding either engineering degrees or diploma in various disciplines. Even this is found wanting in the changed scenario. A new approach is, therefore, called for to be at the cutting edge of technology and to remain competitive in the market.

Technology Issues and R&D in CPSEs

6.10 The Panel limited its assessment of technology issues concerning Maharatna and Navratna CPSEs. At the same time, the feedback provided by loss-making CPSEs provided an insight on the criticality of technology in long term competitiveness. Institute of Public Enterprises (IPE) solicited information from Maharatna and Navratna CPSEs on their technology policy, plan and technology management practices in terms of mapping, benchmarking, sourcing and up-gradation. To have a better understanding of the current situation, information was also sought on their technology plans beyond 2010 and the assistance they require in terms of public policy and support from the government and other related organizations.

6.11 CPSEs have been following different broad approaches on application of technology and R&D to stay competitive. For the purpose of discussion on technology and R&D issues, the CPSEs are divided in groups that would facilitate the understanding of the broad issues irrespective of the industry sector. The broad groups and the issues are as follows:

1. Advanced Engineering / Capital Goods/ Defence equipment etc. Group:

   CPSEs in capital goods sector, turnkey projects for process industry, telecom equipment, electronics and shipbuilding have to be capable to offer products based on competitive technology. These units compete in global market and technology of their products is one of the key determining factors of competitiveness; applied R&D is important. Only CPSEs like BEL, BHEL, BEML, Hindustan Aeronautics Ltd, Cochin Shipyard are staying competitive which could either absorb the technology or continue to have access to technology and have/ had some procurement support. Successful PSEs in this Group spend a substantial amount on R&D. Many other CPSEs in capital goods sector have difficulty to remain viable on account of obsolescence of technology. The private sector companies have also made their presence felt in some of the sectors, but many private sector companies/CPSEs in certain sectors have declined in absence of availability/ access to technology.

2. Intellectual Property Driven Industry Group:

   Capability for continuous innovation is the key element for companies that are heavily dependent on Intellectual Property (IP) capital e.g Pharmaceuticals, Telecommunication equipment, Semiconductor and Biotechnology. R&D and IP rights are critical for competitiveness. CPSEs presence in many of these sector has declined. There has been some renewed efforts to revive CPSEs in some of these sectors but these efforts cannot grapple the wider challenge of innovation capabilities in CPSEs.

3. Process Industry Group:

   Process technology is one of the determining factors of competitiveness in this Group. Technology is embodied in equipments and processes; benchmarking on factors like energy efficiency, yield, quality etc are important; environmental and efficiency factors push upgradation of process technology on continuous basis. CPSEs (process oriented) like BPCL, HPCL, IOC, National Aluminium Co Ltd., SAIL, RINL, NTPC etc may be benchmarked in their respective sectors based on performance parameters. Many of the successful CPSEs have continuously infused new process technologies to improve efficiencies and products.

4. Resource Group:

   Exploration and Production (E&P) is critical in this sector. New technologies continue to evolve and technology venders are diverse. New technologies are based on innovative IT based applications and automation. Involvement of research institutions in development and evaluation of technology is complex. Therefore, robust in-house systems for assessment of technology are important. ONGC, OIL, NMDC, Coal India Ltd. and other CPSEs have been on continuous look out for application of new technologies. Sustainable exploitation of new resource bases e.g Coal Bed Methane (CBM), in-situ gasification (to exploit coal resources that are not economical), shale gas, deep sea resources poses new technological challenges to CPSEs in resource sector.

5. Service Sector Group:

   CPSEs are in direct competition with private sector in Service Sector. IT application in service delivery, service standards and customer orientation are some of the critical factors. CPSEs e.g. MTNL, BSNL, Shipping Corporation of India, Container Corporation of India are no more dominant players/ monopolies in respective sectors and therefore they are striving to benchmark their service standards to other service providers.

6. Utilities/ Infrastructure Group:

   Infrastructure development is witnessing a sea change in approach with much larger role for private investment in one form or other of Public-Private partnership. Regulatory system in infrastructure is to ensure a level playing field for competing suppliers and to safeguard the interest of consumers. Economies of network are important e.g in electricity transmission, gas network; however, dynamics in certain sectors have changed e.g in telecommunication with introduction of cellular network. Gail (India) Ltd., Power Grid Corporation and other CPSEs continue to consolidate their positions in respective markets and are striving to improve technology standards as well.

Expenditure on R&D

6.12 The overall picture of expenditure on R&D by CPSEs in India in last three years is given in the following table:

Table: 6.1
Expenditure on R&D by CPSEs in India

(Rs. Crore)

	2009-10		**2008-09**		**2007-08**	
	Number of units	Expenditure	Number of units	Expenditure	Number of units	Expenditure
less than Rs. one crore	26	7.34	33	12.16	33	9.88
Rs. 1 crore to Rs. 10 crore	21	59.67	18	73.17	25	83.81
Rs. 10 crore – Rs. 100 crore	13	326.7	9	201.85	8	228.44
more than Rs. 100 crore	6	2526.51	6	2051.32	5	1600.03
Total	66	2920.22	66	2338.51	71	1922.16

Source: Public Enterprises Survey 2009-2010 Vol- II

6.13 Out of 217 operating CPSEs, only 66 enterprises made any expenditure on R&D in 2008-09 and 2009-10. The amount spent by these 66 enterprises in 2009-10 was Rs. 2920.22 crore. Only 6 enterprises (Hindustan Aeronautics Ltd, Bharat Heavy Electricals Ltd., Bharat Electronics Ltd., ONGC, Steel Authority of India Ltd. and Indian Oil Corporation Ltd.) made expenditure more than Rs. 100 crore and 13 enterprises made expenditure in the range of Rs. 10-100 crore in 2009-10.

The overall picture shows that R&D thrust in terms of expenditure is only by a few enterprises.

6.14 R&D intensity in terms of R&D expenditure over sales by the main CPSEs over a period of 2005-2009 is provided in Annexure-I.

6.15 According to Thomson Reuters, there are only two CPSEs in the top list of R&D spenders in India in 2009-10: BHEL at number 2 and BEL at number 11. The list compiled by global management consulting firm- Booz & Co. in 2009, ranked BHEL at 590 in the top 1000 R&D spenders in the world. Among the top IP focused companies in India, BHEL with 433 patents between 2007 and 2009 is leading the list followed by SAIL with 230 patents (Table 6.2).

Table 6.2: The Patent Leaders (2007-09)

Company	No. of Patents
Bharat Heavy Electricals Limited	433
L&T	296
Tata Steel	273
Steel Authority of India Limited	230
Tata Motors	212
TVS Motors	151
Infosys Technologies	119
Crompton Greaves	98
Tata Consultancy Services	72
Bajaj Auto	66
Moser Baer	57
Mahindra & Mahindra	55
Godrej & Boyce	54

Source: Thomson Reuters, 2009

6.16 The neglect of R&D in sectors, such as, pharmaceuticals, telecommunications and fertilisers sectors has been 'the achilles heel' of CPSEs. In spite of not so uniform focus on technology, many CPSEs have contributed significantly in frontier areas of technology, some of these areas for illustration are as follows:

- *Research in frontier areas* e.g BHEL engaged in generation of know-why of designs, research in frontier areas and development of new products and systems, HAL having established its credibility in globally competitive aerospace industry.
- *Development of new products and formulations*- e.g R&D centre of Indian Oil has developed numerous formulations of lubricating oils, greases and technologies for deep desulphurization gasoline and diesel streams.
- *Improvement in operational efficiency* such as, energy consumption and improved process yield, adoption of energy efficient technologies- super critical technology in power generation by NTPC.
- *Improving the quality of service-e.g* integration of new technologies for improving the quality of power supply by Powergrid.

- *Technology leadership- e.g* India is at par with other developed countries today in the area of deep geological repository (DGR) for ultimate disposal of nuclear wastes. Similarly, BEL has focused on indigenous R&D for business sustenance and self-reliance right from inception. It is, today, a multi-technology and multi-product company having more than 350 products.

6.17 Based on the interaction held with executives and feedback received from CPSEs, Panel is of the view that CPSEs need to assign higher priority to research and development. In addition to higher priority, they need to develop appropriate management structure to take up R&D systematically.

Recommendations on Technology:

The Panel makes the following recommendations:

6.18 **Technology policy for every CPSE:** Every CPSE shall have a technology policy, clearly indicating the commitment of the enterprise in using / sourcing / developing type of technology as per needs of the organization. There shall be a technology goal, substantiated with purpose and the plans of action for achieving the stated goal.

6.19 **IT Plan** - Every CPSE should be required to prepare an IT plan. This should involve a benchmarking of its extant technology levels and the preparation of a time bound plan for future, based on its strategic needs and benchmarking with the other public/private sector competitors in the sector. This plan should be approved by the respective Boards of CPSEs.

6.20 **Constitution of the technology committee**: A technology committee should be constituted in every CPSE, which may be part of the R&D Division. The Committee would be responsible for identifying technology requirements and finding alternate ways of developing or sourcing technology.

6.21 **R&D Budget**: R&D is construed as an activity that enhances the core competency of the enterprise. The current level of budget on R&D in many of the CPSEs is meagre. The R&D activity needs to be scaled up considerably by CPSEs, including the Maharatna and Navratna CPSEs. To begin with, Maharatna / Navratna companies be mandated to scale up their R&D budget progressively, up to certain specific levels, in the next five years.

6.22 **Institutional collaborations**: Internal research efforts need to be supplemented with joint research and collaborations. Enterprises must clearly prioritise the directions intended for internal research and joint R&D. CPSEs should forge partnerships with CSIR, IITs and other national laboratories for R&D in desired technology areas.

6.23 **Centre for Innovation in CPSE**: There is a need to set up a Centre for Innovation to assist CPSEs in developing and implementing strategies to strengthen their technology base. The Centre would be collaborating with other agencies in technology sourcing, partnering, benchmarking and technology collaborations. The Government may consider setting up such a Centre.

Annexure-I

Average Sales, R&D Investment and R&D Intensity (Rs. Crore) (2005-2009) of select CPSEs

Enterprise	Sales (in Crore)	R&D Investment	R&D Intensity (%) *
Hindustan Aeronautics Ltd.	8621	485.528	5.632
Bharat Electronics Ltd.	4091	170.04	4.156
Bharat Heavy Electricals Ltd.	20143	336.582	1.671
B E M L Ltd.	2547	21.062	0.827
Engineers India Ltd.	1035	4.34	0.419
Manganese Ore (India) Ltd.	728	2.238	0.307
Oil & Natural Gas Corpn. Ltd.	60964	151.564	0.249
Steel Authority Of India Ltd.	41186	85.886	0.209
Oil India Ltd.	6862	14.146	0.206
N M D C Ltd.	5142	10.032	0.195
Hindustan Paper Corpn. Ltd.	785	1.38	0.176
Neyveli Lignite Corpn. Ltd.	3425	5.774	0.169
Balmer Lawrie & Co. Ltd.	1425	2.278	0.160
South Eastern Coalfields Ltd.	8757	8.708	0.099
Rashtriya Ispat Nigam Ltd.	9956	9.392	0.094
Hindustan Newsprint Ltd.	303	0.232	0.077
K I O C L Ltd.	1355	0.706	0.052
Indian Oil Corpn. Ltd.	242781	121.464	0.050
National Aluminium Co. Ltd.	5850	2.74	0.047
Power Grid Corpn. Of India Ltd.	4574	1.636	0.036

Source: CMIEs *Prowess* Database

* Expenditure on R&D/Sales

CHAPTER 7: TOWARDS A NEW PARADIGM

Background

7.1 In this chapter the Panel provides a vision for the future of CPSEs. There is an important need to usher into a fourth phase in respect of CPSEs. It is felt that the country should not give away space in some vital sectors, simply because these sectors may not currently attract private sector investments. India would require a strong presence in some 'strategic' sector industries, with the country going to emerge as the third largest economy in the world. An economy of this size cannot be dependent on its key needs, on others in its entirety. What these sectors / industries are, need to be debated at the highest policy levels but could include subset of defence, special capital machinery and equipments etc. The need for new technologies (and e.g development/control of intellectual property around green technologies) could be a good starting point for debate. India's position in these areas today is disadvantaged.

7.2 A new form of Government intervention may be required that can incubate companies and take risks which the private sector is currently not taking. However, the structure for such CPSEs should be such that it does not burden them with the same constraints that have been discussed in this report. The model for the new CPSEs (to be set up in future) could be different from the units which currently operate in the public sector, with option of entry and exit for the government from any of such future units to be flexible and fast.

The Model

7.3 The model is a mix of a sovereign wealth fund, a single holding structure and the Government acting as a venture capitalist. There is need to create a single holding structure (SHS) for all future CPSEs. It could also be considered to transfer the ownership of Maharatna companies to this structure, to begin with. This SHS would be in the nature of a holding company owning different stakes in different CPSEs, to be decided by its Board. The SHS would have an independent Board which could have say twelve members of which six would be from outside the government. The Prime Minister would appoint the Chairman of the Board and the Government Directors would be six incumbent bureaucrats as ex-officio members and six non Government members. The SHS itself would be managed by a small management team like a Mutual Fund. It would constantly be looking at its portfolio to optimize the returns for the Government in line with the directions of its Board. It would obtain dividends from the units it owned or through divestitures of its stake. It would also undertake investments in some units on the basis of the strategic intent of the Government.

The Board of the SHS entity could primarily discharge the two functions of (i) deciding about which sectors to invest and (ii) managing the investments. It would also decide the extent of holding and timing of divestment or exit. The SHS Board would appoint the Board of companies it invested in, to the extent of its holding. The Boards so appointed would select the Chairmen and Directors on the incubated/invested companies/ CPSEs. The entities thereafter will be Board run

companies/ CPSEs, and will be kept outside the purview of any Ministry. The entities will not report to the CEO of the SHS entity. The CEO would only manage the Government's stake in the different companies and provide a year end report on the financial performance of each of the invested entities for its Board. In special circumstances, the Chairman of the SHS could ask for the CEO of an invested company to be replaced – very much like a big shareholders today can put pressure on the Board to change a CEO. The performance of SHS entity could be monitored by say an Empowered Group of Ministers (EGOM) to whom it would be accountable.

Elements

7.4 Following issues are of essence in determining a workable model for SHS.

a) Legal Structure – What should be the legal structure of the SHS? What should be the structure of the new CPSEs and how should these companies be classified?
b) Entry – In which sectors should the Government enter? What should be the manner of entry? What should be the extent of Government holding? For how long should the Government stay invested?
c) Listing – Should all CPSEs be listed? When should they be listed? To what extent can the Government stake be diluted? Should there be any constraints in ownership – foreign, strategic partners, retail investors, employee ownership? What should the Government retain i.e a majority, 26 percent, or minority stake?
d) Exit – When should the Government exit? To what extent should it exit? What is an appropriate procedure?
e) Oversight structure – What should be the institutional oversight mechanism? Who would appoint the Board and CMDs and Directors? How would performance be assessed and by whom? Would any decisions need to go beyond the Board of the Unit?

7.5 The governing policies in respect of the units could be framed by the Board in keeping with the industry sector under which the unit fell. Thus a CPSE in the Nuclear energy sector would have compensation & other policies in line with the nuclear energy sector and not any other CPSE benchmark. All HR policies should be market related. All contracting rules in respect of procurement, partnerships, joint ventures etc. could be framed by Boards of the individual units. These companies would be running on commercial lines with independent Boards. These companies are, moreover, proposed to be kept outside the purview as State under Article 12 of the Constitution. A specific provision to this effect will have to be built while creating SHS.

Way Forward

7.6 There is a strong need to fill gaps where there is not enough Indian presence in sectors which the Government considers are strategic and vital to India's future. There would not be any reservation in these sectors for the CPSEs but only an attempt to support incubation of companies in vital sectors where enough Indian companies are not entering. **The intent in most of these sectors is to incubate and**

create Indian winners and not to have entities owned by the Government for a long time.

7.7 The country needs to create an incubator that can strategically support its interests. To be able to do this, it will need to alleviate risks in some sectors where the pay off time lines or where country's competitive disadvantage, is currently inhibiting investment. In these areas, it should invest / incubate on professional terms and allow the entities so conceived full latitude to operate on level terms with the best in the world. The model that the Panel has considered provides a new conceptual paradigm. Though there wasn't unanimity in the Panel about the proposed model, but the Panel feels that there is a need to initiate a wider national debate now regarding the need, structure and other details of this new model.

No.I&M-13(30)/2010
Government of India
Planning Commission
(Industries Division)

Yojana Bhavan, Sansad Marg
New Delhi the 13th August, 2010

ORDER

Subject: Panel of Experts on Reforms in Central Public Sector Enterprises.

It has been decided to constitute a 'Panel of Experts on Reforms in Central Public Sector Enterprises (CPSEs)' for suggesting a road map for further development of these enterprises.

The Terms of Reference and Composition of the Panel of Experts will be as follows:

I **Terms of Reference**

i) To improve Management practices in CPSEs in matters relating to HR and Corporate Governance.

ii) To suggest steps for making CPSEs more proactive, result orienting and aggressive to take advantage of greater opportunities in the global market.

iii) To recommend a policy framework for restructuring CPSEs including diversification, mergers and consolidation, strategic partnerships and rehabilitation etc.

iv) To suggest an effective approach for greater partnership with the private sector for improving profitability and efficiencies of the CPSEs.

v) To undertake a technology mapping of CPSEs in view of heightened competition in the market.

vi) To take a fresh look at the MOU system and recommend more robust parameters so as to set targets in line with international benchmarks for performance evaluation of CPSEs. To also suggest, changes in other major areas of interface and processes of engagement with Government.

vii) To suggest systems / modifications taking into consideration institutional arrangements in other countries.

II Composition of the Panel of Experts

1. Shri S. K. Roongta	– Chairman
2. Sh. Bhaskar Chatterjee, Secretary, Department of Public Enterprises	– Member
3. Shri. Ajay Shankar, former Secretary, Department of Industrial Policy and Promotion	– Member
4. Shri Shyamal Ghosh, former Chairman of Telecom Commission & Secretary, Department of Telecommunications	– Member
5. Shri R.S. Sharma, Chairman and Managing Director, NTPC	– Member
6. Shri U.D. Choubey, Director General, Standing Conference Of Public Enterprises (SCOPE)	– Member
7. Shri Partha Bhattarcharya, Chairman, Coal India Ltd.	– Member
8. Shri S.S. Kohli, Former Chairman IIFCL	– Member
9. Shri Jitesh Khosla, OSD, Indian Institute of Corporate Affairs	– Member
10. Shri N.K. Jain, Secretary, Institute of Company Secretaries of India (ICSI)	– Member
11. Shri Amarjit Chopra, President, ICAI	– Member
12. Shri R.K. Mishra, Director, Institute of Public Enterprises (IPE), Hyderabad	– Member
13. Dr. Janmejaya Sinha, Chairman, BCG Asia Pacific, the Boston Consulting Group, Mumbai	– Member
14. Dr. Renu S. Parmar,Adviser (Industry & VSE), Industries Division, Planning Commission	- Convener

2. The Chairman of the Panel of Experts may co-opt any other Experts as Members of this Panel, if considered necessary.

3. The Panel of Experts will submit its report within six months of the date of this order to the Planning Commission. The secretariat support to the Panel will be provided by the Industries Division of the Planning Commission.

4. The non-official members of the Committee will be entitled to TA/DA as permissible to Grade I officers of the Government of India and this expenditure will be borne by the Planning Commission.

(Dr Renu S Parmar)
Adviser (Industry & VSE)
Telefax: 23096605 e-mail: rsparmar@nic.in

To

Chairman and all the Members of the Panel of Experts

No.I&M-13(30)/2010
Government of India
Planning Commission
(I&M Division)

Yojana Bhavan, Sansad Marg
New Delhi the 12th October, 2010

ORDER

Subject: Panel of Experts on Reforms in Central Public Sector Enterprises – co-option of a representative of Comptroller and Auditor General of India

In continuation to Planning Commission Order No. I&M 13(30)/2010 dated 13th August, 2010 notifying the constitution of Panel of Experts on Reforms in Central Public Sector Enterprises, it is informed that Deputy C&AG and ex-officio Chairman, Audit Board, Office of the Comptroller and Auditor General of India has been co-opted as Member of the Panel of Experts.

This issues with the approval of Chairman of the Expert Group.

(Renu S Parmar)
Adviser (I&VSE) &
Convener of the Panel

Tel: 23096605

To

The Chairman and all the Members of the Expert Group

MEETINGS OF THE PANEL

The Panel of Experts on Reforms in Central Public Sector Enterprises (CPSEs) had meetings on 15.09.2000, 7.10.2010, 11.11.2010, 21.12.2010 (meeting with CMDs of Maharatna and Navratna CPSEs), 13.01.2011, 14.02.2011 (meeting with select loss making CPSEs), 11.03.2011 and 9.08.2011.

The incumbent CMDs of respective CPSEs (Shri Anup Roy Choudhary in case of NTPC, Shri Partho Bhattacharya up to meeting held on 14.02.2011 & Shri N.K. Jha, thereafter, in case of Coal India Limited), Shri Amarjit Chopra, President ICAI up to meting held on 11.03.2011 and thereafter Shri G. Ramaswamy, President ICAI were represented on the Panel. Shri Sunil Verma, Dy. C&AG and ex-officio Chairman, Audit Board, Office of the C&AG of India was represented on the Panel up to meeting held on 11.03.2011.