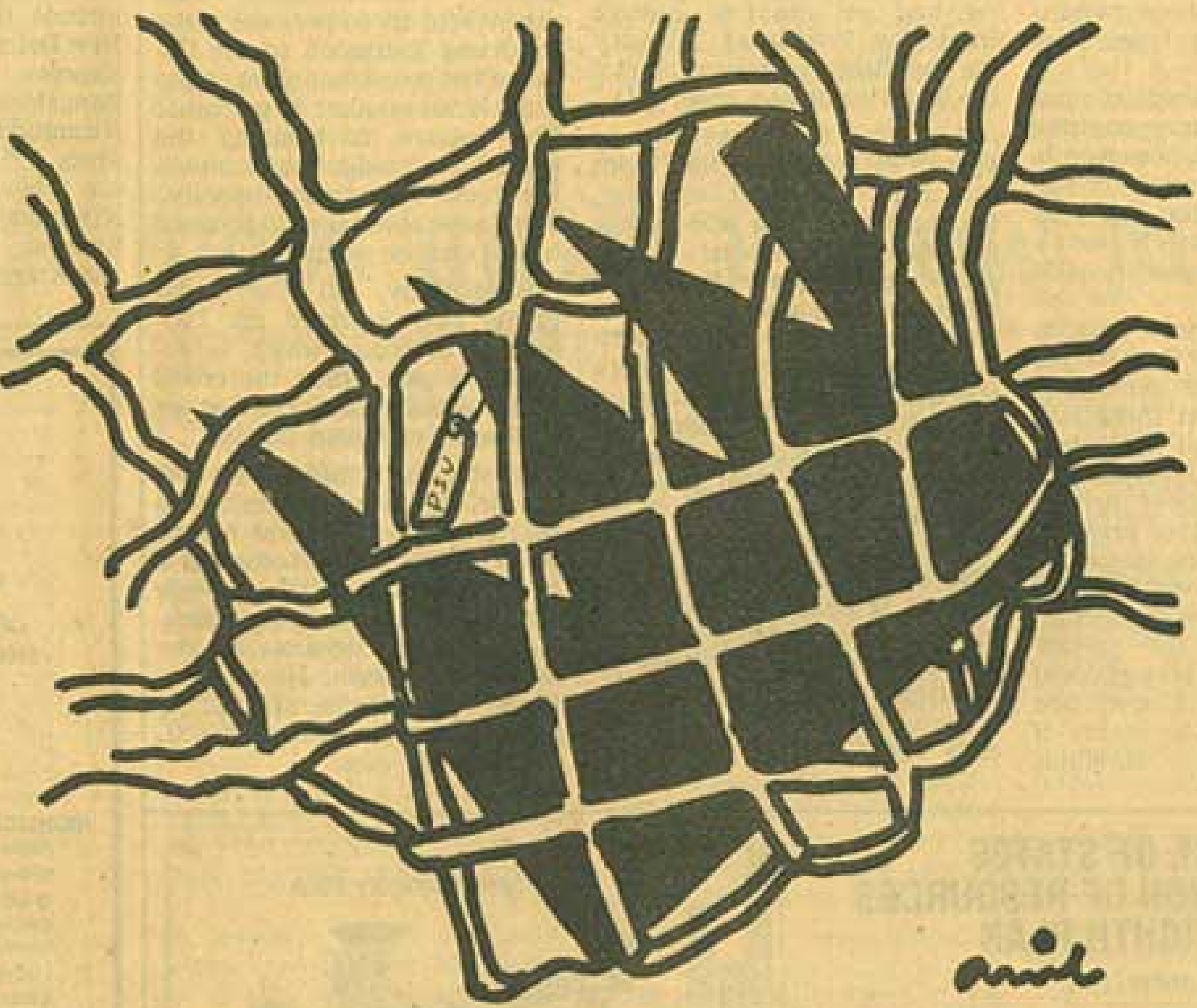
THE OBSERVER
OF BUSINESS AND POLITICS

28 July, 1997

Generating illusory hopes

The ability of the navaratnas to run on commercial lines will be hindered by pricing and distribution policy, says **Uttam Gupta**



THE government seems to have finally made up its mind to grant financial and managerial autonomy to the so-called navaratnas — ONGC, IOC, BPC, HPC, NTPC, BHEL, VSNL, MTNL and SAIL. In a significant move, the Union cabinet had decided to (i) free these PSUs from the two-stage PIB clearance, (ii) allow them to enter into joint venture arrangements/strategic alliances with private companies, including MNCs and acquire technology either through JVs or other arrangements, and (iii) raise debt both in the domestic market and abroad.

The PSU managements have also been given autonomy on matters of organisational restructuring, including opening up of offices within the country and abroad, introduction of incentive-oriented schemes for manpower development and formulation/implementation of the voluntary retirement scheme (VRS). The government also intends to reconstitute the boards of these PSUs by inducting professionals as its nominee directors.

On the face of it, the package sounds path-breaking, perhaps revolutionary, as the autonomy and freedom in taking decisions for which the managements had been clamouring for so long, may have come so soon. In a spontaneous show of hands, some of them have even complimented the government and opined that the ball is now in their court and that it was their turn to come up with better performance.

Such hurried reaction is totally uncalled for and unwarranted. A close scrutiny of the fine print would reveal that autonomy has not really come their way; that the managements will continue to be chained in various ways. Consider the most crucial factor that will determine the ability of the PSUs to survive in the emerging competitive regime, let alone turning into global giants. This concerns the formation of joint ventures (JVs) as without this, they will neither have access to technology nor capital.

The investment needs for such JVs are heavy, thus requiring substantial contribution by way of equity from both the partners i e PSUs and the MNCs. A lower equity by the former is not advisable as this would lead to passing of control in the hands of the latter.

In the telecom sector, the MTNL is virtually an extension of the DoT. The former is used as conduit for carrying out various functions of the latter, including raising of funds from the market. The government is still not geared to take steps to liberate MTNL from these controls.

Further, autonomy given to the navaratnas

encumberances in the package should be removed. The proposed ceiling of Rs 200 crore or five per cent of net worth — whichever is lower — is totally unjustified and unwarranted. This should be dropped to give genuine autonomy to PSUs in regard to investment decisions and formation of JVs.

The inherent opposition to inducting professionals as nominee directors should be shed in the overall interest of helping the PSUs perform better and grow. No doubt, being the dominant shareholder, the government would like itself to be represented by bureaucrats. However, this has to be weighed against their other ministerial responsibilities, leaving little time for properly addressing issues facing PSUs.

Considering the enormous responsibilities

executive (CE) in the emerging dispensation, the process of selection of the incumbent has to be fine-tuned to get the best overcoming constraints within the government set-up, including in regard to salaries/perks. The CE should get a full five-year term to ensure stability of the management.

Over the years, the PSU managements have got used to taking orders/directions from the bureaucrats/politicians. Both the former as well as the latter will have to take necessary initiatives to ensure that this hangover from the past does not come in the way of taking independent decisions in furtherance of the commercial interests of the undertakings.

The widespread controls on pricing, supply and distribution of various products i e oil, gas, power etc. will have to be

control viz refineries through OCC will have to go to enable the managements effectively translate the freedom of action into concrete results.

There is an urgent need to give autonomy to other PSUs, including even the loss-making sick undertakings. The latter, in particular, need much greater attention in implementing necessary rehabilitation packages and restructuring/rationalisation of the workforce. A truly autonomous board, manned primarily by professionals, will be a great help in turning these around. In view of this and consequently, much higher equity contribution by the PSUs in the JVs, the management will willy-nilly have to come to the government for approvals/clearances.

A high-powered government committee under cabinet secretary and secretaries to key ministries as members has been constituted, ostensibly to monitor the performance of the navaratnas.

Within the concerned administrative ministries also, a high-powered board with secretary as chairman, has been set up with a similar objective.

The talk of inducting professionals as nominee directors of the government on the PSU boards does not inspire confidence. This is especially in view of the past experience when a decision to this effect, taken in 1992, was not implemented. In fact, the department of public enterprises (DPE) which was the nodal point for ensuring its implementation, virtually got no cooperation from the various ministries/departments. Although the move has now been revived, the opposition to it within the government continues to be as strong as ever.

Giving powers to raise funds — domestic market and abroad — will be of little help so long as the government continues to control the PSUs in one way or another. Raising money requires proper marketing of the project and needs full support of the JV partner especially when it comes to mobilising funds abroad. When the setting up of the JV itself is chained, how can the fund-raising exercise succeed? Additionally, raising money abroad is subject to overall ceiling and sector specific sub-ceiling and various strings attached to its utilisation. This is bound to curtail freedom.

The decisions in regard to restructuring and rationalisation of the work-force will also remain seriously constrained unless the laws/legislations governing the labour force are changed in tune with the reforms and liberalisation process. The ability of the navaratnas to run on commercial lines in a free and independent manner will also be hindered by the overall system of controls in regard to pricing and distribution