The Observer of Business and Politics

Autonomy is the crux of PSU reform

Comprehensive and coordinated steps are needed to give full autonomy to the PSU management. These would involve automatic approval for joint ventures, doing away with investment ceiling and requirement of government approval, says Uttam Gupta.

THE contemplated move by the Department of Public Enterprises (DPE) to allow the PSU boards to enter into joint venture with private parties upto 25 per cent equity holding without the approval of the union cabinet may be a cheerful news for the managements. However, this is unlikely to take them very far. Though other forms of controls remain intact, the limit of 25 per cent is too low to allow the PSUs to play any decisive role in the JV. With this, the JV will be controlled fully by the private sector partner, frustrating the very objective of the latter entering into JV.

If the government is serious about promoting development through joint venture route, it should consider giving functional autonomy for equity participation up to a minimum of 49 per cent. The Planning Commission is reported to have suggested the same. The former has even come out with a modified formula i e automatic approval up to 25 per cent and for investments beyond 49 per cent, the clearance from the finance ministry alone should be required.

So long as approval is needed, whether of the MoF or the cabinet, what difference does it make? In fact, the long pending petroleum ministry's demand to allow its PSUs to enter into JV arrangements besides raising the investment limit, has met with opposition from none other than the MoF.

Consequently, even if the modified dispensation recommended by the PC is adopted, delays are inevitable. Nothing except automatic approval upto 49 per cent will enable the PSUs to get the best out of the JVs. JVs like the Maruti Udyog Ltd (MUL) need to be totally PSU-controlled to save on resources.

Liberalising existing investment ceiling becomes necessary also. Otherwise the management sail on same waters, even with automatic clearance of upto 49 per cent. Presently,the management's independent investment decision making limit is Rs 50 crore; investments beyond require Public Investment Board's (PIB) approval. Invariably, the matter goes upto the level of the CCEA and sometimes even the CCPA.

The management face other limitations as well. The approval of the concerned administrative ministry is still required. Which means, again red-tapism will have its day.

Can the concerned administrative ministry be asked to keep away? The government may propose that the Board of the PSUs does not need the permission of its parent ministry either. But that does not automatically vouchsafe autonomy to the management. This is because the ministry is sitting right there in the boardroom of the PSUs, conducting meetings and taking all critical management decisions, at times even those relating to day-to-day working of the enterprise.

Possibly, there could be a way out of this stalemete. Instead of the bureaucrat sitting on the Board, the government could call in eminent professionals having the necessary experience and knowledge. About three years ago, the cabinet had taken a decision on these lines, with the DPE preparing a panel of suitable candidates. Intransigence among ministries on delegating powers has obstructed implementation.

Several undertakings have been without a full-time chief executive for years. In such enterprises, for all practical purposes, the administrative ministry is the manager.

Not just the PSU, but also its private sector partner requires freedom of action, to function as a successful JV. Can the latter do so? Investment of even 1 per cent equity by the foreign company in a JV requires the prior approval of the CCFI. Assuming that the PSU is able to avoid the multiple clearances, you still have the brakes on the JV through the private route.

No JV arrangement between the public and the private sector is conceivable without the approval of that transcendental authority. The private sector companies, especially the MNCs, will not wait indefinitely.

The renewed thinking in the DPE on the question of functional autonomy and JV, is an offshoot of its conviction that further growth is possible only through this route. Resource crunch makes the government a poor fund provider. Apart from resource support the private partner mobilises resources, even from the global market.

If the government is serious about promoting development through joint venture route, it should consider giving functional autonomy for equity participation up to a minimum of 49 per cent.

Thus, the government should endeavour to distance itself from the PSU management almost entirely. It should take comprehensive and coordinated steps to give full autonomy to the management. Amongst others, these would involve automatic approval for JV irrespective of the extent of equity holding, exemption from approval by PIB/CCEA by doing away with the concept of investment ceiling and dispensing with the requirement of approval by the concerned administrative ministry.

The government should represent itself on the PSU Boards through professionals only. The ministry should concentrate only on framing overall policy restrict itself to a facilitation role.

In exchange, the management may be made accountable for taking sound investment decisions and good performance through the MOU route. Installation of a capable chief executive at the helm and ensuring his continuity is of paramount importance.

The government may reduce itself to a minority partner by divesting upto 51 per cent of equity. This suggestion has been made by the Sundarrajan Committee in respect of PSUs in the oil sector and the idea finds favour in a section of the government as well. This will automatically pave the way for installing a trully independent, autonomous and professional Board and facilitate quick decisions on various matters including setting up of the JVs.