The Observer of Business and Politics July 12, 1994

Clipping wings

Mid-term contract termination of PSE chief executives adversely affects performance, says Uttam Gupta

THE government is reportedly contemplating the introduction of a system of performance evaluation for chief executives of public sector enterprises. Such evaluation may be done at the end of every financial year. The implication is that even during the contract period, which is generally five years, there is a strong possibility that a CE may have to go, if his performance is not found satisfactory.

Under the existing dispensation, the working of the PSEs is largely controlled by the concerned administrative ministry and perhaps, a number of other ministries and departments. This is notwithstanding the fact that the public enterprises were originally intended to be autonomous corporations, run independently by professionally constituted boards, with the chief executive being the member secretary and functional head of the corporation. That being the de facto reality, there may not be one to one relationship between the performance of the company on the one hand and the role or the managerial effectiveness of the CE on the other.

Leave aside the interference by the concerned administrative ministries in the day to day working of the enterprises, which has a significant bearing on the results, and consider only the broader decisions relating to setting-up of new projects and implementation of expansion and modernisation proposals. Under the rules, any such proposal starts from the board room of the company, goes to the concerned administrative ministry for approval, then comes back to the company board for preparation of the detailed project report, which in turn, is submitted to the Public Investment Bureau for clearance. Very often, the project has to get the nod of the Cabinet Committee on Economic Affairs and some times even the Cabinet Committee on Political Affairs. The Planning Commission too invariably comes into the picture whether plan support for the project is required or not. All this means enormous delays and by the time the project is finally approved for implementation, the cost would have already escalated to levels rendering it unviable.

The expansion project of IFFCO Aonla and NFL-Vijaipur has been under discussion by the management of the companies for several years now. Still it is not clear whether all the necessary approvals have been obtained. KRIBHCO's nitrophosphate project, after being kept on hold for several years, has been approved only recently. Likewise, the revamping and expansion project of MFL had been on hold for several years. And now the costs have risen steeply and the company is having a tough time arranging the necessary funds.

Against this background, and considering the inevitable effect of such externally engineered constraints on the working of an enterprise, it would be unjust to lay the blame for the consequential disappointing results on the CE of the company. Besides, pinpointing of responsibility in such a cavalier manner does not in any way help the cause of the enterprise and would on the contrary make matters worse, as a demoralised and humiliated CE cannot be expected to manage well.

There is nothing new in the proposed scheme. Way back in 1980, Mrs Indira Gandhi introduced a system wherein the initial offer of appointment was to be for two years, at the end of which a performance evaluation was to be undertaken, and only thereafter was the CE to be allowed to continue for the balance three years. Far from facilitating improvement in the working of the enterprises, this rule affected continuity of the top management and only harmed the cause of the enterprises.

The former Prime Minister, Mr Rajiv Gandhi, did talk of not disturbing the chief executive of a public sector company for a period of five years in the interest of stability and to make the management function independently and effectively. Unfortunately, his wishes remained largely on paper.

All through the 1980s, we witnessed the haunting phenomenon of a large number of PSEs remaining headless for years or their top management changing frequently.

In a span of less than ten years, HFC, which is now with the BIFR, had four CEs. RCF did not have any regular CE for four years. At present a committee of three is managing the company.

The present contemplated proposal, if implemented, would add another factor of uncertainty. The virtues of maintaining stability at the top are fairly obvious. Suffice it to mention here that such stability is a prerequisite not only for maintaining discipline and work ethos, but also, for enabling a CE to structure the enterprise according to his management philosophy and watch the results of the corporate strategies adopted by him. Having selected a competent person, for which appropriate mechanisms exist, the government should give a free hand to the incumbent to manage the affairs of the company for a minimum period of five years.

As it is, the top managements of PSEs are suffering from a variety of handicaps in terms of not being able to act independently and effectively. The CEs have already presented to the government a charter of demands which, amongst others, include the need for giving them necessary autonomy and freedom of action. In the emerging liberalised regime, when the PSEs have to face competition not only from private companies but also from multinational giants, and when the government has already withdrawn (or intends to withdraw) some of its support, it is all the more necessary that they be given a free hand.

The contemplated measure will tantamount to clipping the wings of CEs even further. With the damocles sword of contract termination hanging over their heads all the time and with the constraints from the bureaucracy and even the politicians showing no signs of easing out, it is impossible for them to deliver the expected results. We must not forget that despite MOUs, which provided for matching obligation from both sides, the functioning of enterprises have not shown any improvement and the overall return on capital continues to be three per cent or even less.

It should also not be forgotten that in the present atmosphere of competition, when the need of the hour is to attract good talent to manage the PSEs, there is, in fact, an outflow primarily because of the much better remuneration packages being offered by the private sector as also the congenial atmosphere. Attempts to take away the security of tenure will not only aggravate the exodus from the PSEs, but also, forestall chances of inducting capable persons into top positions.

The government should abandon the contemplated move. Instead, adequate precautions and care should be taken at the time of appointment itself. This is not at all difficult. And, once a person has been selected to man the top position, he should not be disturbed for a period of five years. Further, his various initiatives and endeavours should be given necessary support and encouragement by the government.