

COMMENT

Uttam Gupta says that the administrative ministries are largely responsible for the mess in public sector

RECENTLY, while addressing the Consultative Committee meeting of Members of Parliament attached to his Ministry, the Industry Minister, K Karunakaran, is reported to have warned the loss-making public sector undertakings of serious consequences if they fail to improve their performance. To whom the warning was being issued? Who should take the signal? And, what kind of action the Government had in mind?

To answer these questions, we must know as to who is managing these undertakings? Technically, the management is vested in the board of directors which consists of the chief executive (CE) and a few other directors. Except in rare cases when the CE is also the chairman of the board, the latter is invariably headed by the representative of the Government.

The CE who is also the full-time functional head of the undertaking is expected to manage the affairs on the basis of the policy guidelines laid down and directions given by the board from time to time. For running the enterprise, the CE is assisted by a team of functional directors in key areas of discipline, who, in turn, are supported by subordinate staff for carrying out various activities.

Whereas the CE is selected by the Appointment Committee of the Cabinet (ACC) on the basis of the recommendations of the Public Enterprise Selection Board (PESB), the other directors on the board are nominated by the Government. Invariably, the latter are representatives drawn from the administrative ministry under whose jurisdiction the concerned PSU falls. Three years ago, the Cabinet had taken a decision to induct professionals as nominee directors of the Government on the boards of PSUs and the Bureau of Public Enterprises (BPE) had even initiated an exercise to prepare a panel of experts from where suitable persons could be drawn. The decision is gathering dust in the files of the BPE.

In recent years, as part of the disinvestment programme in some of the PSUs, a small share of Government's equity has been unloaded. However, this has not materially altered the complexion of the undertaking which continues to be controlled by the Government in view of its predominant ownership. Consequently, even in these cases, the undertaking is being run by the Government itself through its nominee-directors, the Chairman, apart from the CE appointed by the ACC.

While indicting the sick PSUs, the Minister was obviously raising the fundamental issue of accountability. This is vital too as without making someone accountable for the lapses, it is impossible to improve the situation. Who then, should be held responsible? The CE? The PSU



Govt must accept blame

board? Or the administrative ministry? In various assessments and evaluations, the CE either by himself or along with his functional directors, becomes the focal point. In fact, some time back, the Government was even contemplating to link continuation of the CE in office to the performance of the undertaking. It was proposed to undertake a review at the end of each year and the outcome of this would decide the fate of the CE.

The phenomenon of the CE having to put up with intransigent nominee directors on the PSU Board in getting its approval to important decisions/resolutions or rushing to the administrative ministry at the slightest turn of events for taking orders or undertaking activities to

satisfy the interests of the concerned ministers (incidentally, these entail a heavy financial burden on the enterprise) etc., is not uncommon.

The various watchdogs that the Government has put in place e.g., auditing by CAG (in addition to the internal audit), the MOUs, answers to questions in Parliament, submissions to various committees of Parliament, the Vigilance Commission etc., all in the name of accountability, make matters worse by taking away a major slice of the limited time and infrastructure with PSUs and interfering with the freedom of action of the CE.

However, even bigger stumbling blocks appear by way of antiquated and obstruc-

tionist rules and regulations that require practically all investment decisions to be approved by a multiplicity of authorities within the Government.

The delays have the potential of threatening the viability of new projects consequent to resultant cost escalations and the heavy burden of servicing the capital. You even have situations whereby the powers that be order a fresh review of the project contingent upon revised cost estimates which means further delay and the vicious circle continues. With this, there is a strong possibility of even new units with otherwise sound fundamentals e.g., employing state-of-the-art technology, reliable equipment and effective management getting into a loss-making situation.

In respect of FCI and HFC group of units whose production is covered by the retention pricing and subsidy scheme, you even have a situation of some reliefs given under the latter, that were mopped up as adjustment towards interest and penal interest on Government loans given to support their cash losses. In other words, even if the relief comes, the undertaking does not get cash in hand to support turnaround.

The irony is that appropriate rehabilitation packages to retrieve the situation for most of the PSUs are stuck up in the jungle of bureaucracy. The NTC provides a classic example wherein even the budgetary support is not required (under the package, funds are to be generated by sale of surplus land) and yet, the nod for implementing the same is yet to come.

As an alternative to rehabilitation or closure, the Government has even referred to the possibility of the PSU entering into alliance including joint ventures, with private parties. In this respect also, the management needs the prior approval of the Cabinet which is a time-consuming process.

There is no use passing on the buck to an entity which is completely powerless and not free to act in all critical matters; in several instances, this entity does not even exist as the bureaucrat from the concerned administrative ministry also functions as the CE for years.

In a nutshell, if the Government is really serious about turning around loss-making enterprises, it should accept the responsibility for the mess in toto and carry out long-pending reforms to allow the management a free hand in taking timely remedial steps.

In extreme cases, where the Government finds evidence of the undertaking having been mismanaged by the CE and his team, it can exercise its authority to remove the CE and install a new management capable of delivering the goods.

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