# Too important to be left to political compulsions

MOST governance tenets are aimed at private sector entities, recognising them as powerful engines of growth. The OECD principles also primarily focus on publicly traded companies and on developing vibrant and efficient capital markets. They acknowledge that the principles can be extended for improving corporate governance in privately held or state-owned companies as well — entities that are not `whole-time' participants in the capital market.

There are many economies, particularly developing and emerging ones such as China, India and Brazil, in which the public sector is at the forefront of economic development. Funds generated by public sector enterprises (PSEs) are further invested in other PSEs, government securities and other government initiatives. Therefore, all such monies are within the realm of `public money'.

The other feature that distinguishes these economies from the developed ones is the role government-owned banks and financial institutions play in funding both private and public enterprises. The concept of `public money' also extends beyond capital markets to private and public companies borrowing from government-owned banks. Also, the quantum of primary market small investors in India is low; it is the public financial institutions that channelise public savings into investments.



The principles of governance borrowed from the developed countries exclude this band of large users of public money from complying with corporate governance practices, as they are not listed entities.

The nature and accountability of stakeholders or rather `shareholders' differentiates PSUs and other government-funded enterprises from other corporations, and that is largely because there is no clear difference between corporate objectives, corporate governance and government.

If a company has to flourish along commercial lines, public policy objectives — for example, reducing unemployment — can only be incidental to achieving corporate objectives. Government as principal shareholder cannot use corporations to meet its social welfare obligations. Of course, PSUs can align their objectives with those of public policy but cannot be held responsible for achieving them in entirety or for eternity.

. Large PSUs protected by government using taxpayers' money tend to have a higher degree of moral hazard than the privately owned large investors. This is a peculiar example of the flip side of agency theory (that is, gap between owners and managers, widely thought to be the reason for collapse of good governance).

In the context of the Indian public sector, the owner is the government, generally faceless and often too diverse to take decisions for the sustained benefit of the company. The managers are government employees. So there is the classic disconnect, of accountability on the part of both the owner and manager. Accountability that is diffuse is actually non-existent.

Measures that matter

There are similarities in governance of the private and public sectors, but the concerns of the latter are different. Performance of the public sector needs to be defined in terms of requirements of the broad range of stakeholders it seeks to serve. And stakeholders can best be served if there is clear communication of the value drivers.

Clearly, the fundamental principles of corporate governance — accountability, responsibility and transparency — are equally applicable to the public sector.

Reporting tools

One of the most difficult issues in the public sector is to develop a culture that accepts performance measures. Considerable leadership effort is needed to explain that these measures are being used to help the organisation improve delivery of objectives.



Performance targets are indicators whether objectives are being met or not but rarely do these targets take a holistic view of an organisation's overall performance and end up taking a `tunnel view' or silo approach that is woefully inadequate. This fundamental misalignment between targets measured and targets that should be achieved is what causes confusion about the real value drivers. This leads to foggy vision and makes it difficult to develop focused strategies and processes aimed at delivering efficient products and services.

Public enterprises need a multi-dimensional tool for measurement and reporting that goes beyond financial indicators. Increasingly, such companies use triple bottom line reporting to balance and integrate economic growth objectives with social development and environment stewardship.

This approach helps to focus on a company's objectives and adopts a holistic view of the business strategy used to achieve these objectives. Since public sector companies follow a larger agenda of community service and government policy objectives, it would be unfair to assess performance based solely on financial performance.

Quality of governance

The public sector, particularly in developing nations, has to be admired and lauded for its contribution to economic development and achieving the objectives of public policy. But government ownership can be both an obstacle and a catalyst to governance reform; obstacle because government is usually a poor supervisor of its own work and a catalyst because government alone can bring about sweeping governance reforms.

Equally important, the quality of governance in the public sector can be assessed by the extent to which governing boards can be held accountable for the exercise of their powers.

By far the greatest challenge these companies face is to have a clear understanding of the roles and responsibilities of their minister and ministry while operating with a high degree of openness and transparency.

The working of public sector companies will improve if:

Legislation clearly distinguishes between advisory and governing boards;

There is accountability, that is, roles and responsibilities of ministers and government appointees are clearly defined.



Governing boards have powers commensurate with their responsibilities to deliver results.

The preamble to the Narayana Murthy Committee Report says "... certain corporate responsibilities are too important to be left to loose concepts of fiduciary responsibilities."

In the context of the public sector, certain governance issues are too important to be left to political compulsions of the day. These tenets must be institutionalised in the regular working system of PSUs.

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