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GOVERNMENT OF KERALA

Abstract

PUBLIC SERVICE—ADMINISTRATIVE REFORMS—ELEVENTH REPORT OF THE KERALA ADMINISTRATIVE REFORMS COMMITTEE—
APPROVED—ORDERS ISSUED

PERSONNEL AND ADMINISTRATIVE REFORMS (AR) DEPARTMENT

G. O. (Ms) No. 14/03/P&ARD.

Dated, Thiruvananthapuram, 29th May, 2003.

Read.—G. O. (Ms) No. 7/97/P&ARD. dated 26-5-1997.

ORDER

In the Government Order read above, the Kerala Administrative Reforms Committee was constituted to recommend measures to simplify and streamline the present system of administration in the State. The Committee has submitted its Eleventh Report on 'Interface Between Government and Public Sector Units.'

Government have examined the report in detail and are pleased to approve the recommendations contained in the eleventh report of the Kerala Administrative Reforms Committee as modified below:—

ELEVENTH REPORT OF THE KERALA ADMINISTRATIVE REFORMS COMMITTEE—INTERFACE
BETWEEN GOVERNMENT AND PUBLIC SECTOR UNITS

Ref. to Para No.	Recommendations in the Eleventh Report of KARC	Government Decision on the Recommendations
(1)	(2)	(3)
3.2	Government Control	
3.2.1	<p>The Crux of Government Control is achieving a balance between the autonomy of the State-owned enterprise and its accountability. This calls for clear delineation of issues that are of concern to the Government. In U. K the Mikardo Committee recommended the following guiding principles for ministerial powers in relation to public enterprises, which are relevant to the Indian context as well. They are:</p> <p>(i) Ministers should be concerned with securing that the industries operate in the public interest.</p> <p>(ii) Ministers should seek to ensure the efficiency of industries by exercising a broad oversight of them, but should not become involved in management.</p> <p>(iii) The industries should otherwise be left as free as possible to carry out the policies required of them as efficiently as possible.</p> <p>(iv) There should be clear demarcation of responsibility both between Government departments and between ministers and boards.</p>	<p>Accepted. Strategic decisions will be taken by Government and operational decisions will be left to the management and the Board of Public Sector Undertakings.</p>

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- (v) The methods of ministerial control should be mainly strategic rather than tactical. The industries can have a clearer idea of what the Government requires of them if they are not subject to frequent, ad hoc, tactical control.
- (vi) The nature of Government control need not be wholly formal. Although informality has its dangers, a close, intimate and informal relationship cannot be avoided and is even beneficial.
- (vii) The minister and the industries should be publicly accountable.
- (viii) The measurement of management should not be purely commercial success or social achievement, but the efficiency with which the industries carry out the joint commercial/social duties given to them.
- (ix) The ultimate sanction for bad management may be dismissal or non-reappointment to post, but improvement in management should be the first objective.
- (x) Proper and fruitful exercise of ministerial control depends on the attitude and ability of both ministers and members of the Board."

3.2.2

In the Indian context the Arjun Sengupta Committee to review policy for Public Enterprises, had the following points to make:

Findings noted.

- "(i) Government should be primarily concerned with overall strategic planning and policy rather than with day-to-day functioning of the public enterprises .
- (ii) Governments responsibility is to ensure that public money invested in these enterprises earns an appropriate rate of return and that the functioning of these enterprises is consistent with plan objectives, including with those related to employment, fair pricing, regional dispersal of industries and efficient use of scarce resources.
- (iii) The enterprises should be held strictly accountable for their performance in relation to the goals set and there should be an appropriate mechanism for evaluation of their performance.
- (iv) The Ministry should be responsible for the formulation of policy and the management should be responsible for implementation of that policy, and the interaction between them should be such as to facilitate the exercise of overall Government supervision, without impairing the efficiency of the operations of an enterprise at "arms length" from Government and promote decentralized decision-making within an enterprise."

3.2.3

From the two sets of guidelines it is clear that the question of Government Control is a vexed one. Experience shows that too much of control and too much of freedom can both be unproductive. What is important is the spirit behind the relationship between Government and PSUs. Shared interests and mutual dependence can result in a horizontal relationship as partners instead of hierarchical one of controllers and controlled.

As above.

(1)	(2)	(3)
3.2.4	It is recommended that in the light of the above philosophy, existing controls most of which have grown on ad hoc basis emerging administratively in response to some local temporal problem may be reviewed and the controls brought down to required levels. The guiding test to be adopted by Government in following any control or regulation may be how the said control or regulation would affect the functioning of the PSU in a competitive environment.	Accepted.
3.3	Corporate Plans	
3.3.1	All PSUs should be directed to prepare Corporate Plans within 18 months and be given the necessary guidance and support. Corporate Plans essentially set out the objectives both social and economic as well as the medium term strategy of the enterprises. A typical Corporate Plan would analyze the business environment of the enterprise, clarify the constraints and explain the strategies for the future indicating the risks and assumptions. The plan should specifically indicate the criteria for measuring the performance both from the social angle as well as the business angle. The Plan should indicate targets as well as benchmarks for monitoring the achievements besides giving an idea of the investment programme. A good Corporate Plan should be a blend of the management's vision as well as the Government's commitments, serving as a basis of sound enterprise—Government relations.	Accepted.
3.3.2	The Corporate Plan should be the result of negotiated agreement between the Government and the enterprise. To be successful, there are certain pre conditions:—	
	(a) All Corporate Plan which would form the basis of a performance contract should have the acceptance of the political executive for it would define the limits of political control while delineating the area of autonomy.	Accepted.
	(b) The targets and figures should be realistic taking into account the physical, financial, political and business constraints.	Accepted.
	(c) The contract must be flexible allowing for re-negotiation if there are basic changes in the assumptions. But a plan must never be allowed to drift or to be left ignored.	Accepted.
	(d) There has to be clear procedures for monitoring the results of the plan. A structure of incentives and disincentives needs to be built in.	Accepted.
	(e) A good Corporate Plan requires high quality technical skill and professional input.	Accepted.
3.3.3	The Corporate Plan should not end up as making claims to justify Government support. It should be based on operational and action plans reflecting the commitment and capability of the management. Within the Corporate Plan there should be clear annual plans. Such a plan should then be studied by the proposed professional body, the Public Enterprise Authority before Government accepts it.	Recommendations regarding the preparation of Corporate Plans by all Public Sector Undertakings is accepted.
3.4	Performance Contracts	
3.4.1	Already some steps have been taken in this regard by RIAB. There is need for massive upscaling. Performance Contracts with PSUs is recommended in the sense of finalizing and approving Corporate Plans by Government for implementation. While Corporate Plans are	Accepted.

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predominantly the result of enterprise activity, the contracts can be finalized only after a dialogue between the Government and the PSU resulting in a pledge to meet the obligations. While Government guarantees freedom of action within the agreed framework, the enterprise in return accepts the negotiated performance targets. The performance contract should have certain clear performance indices, which reflect both economic as well as social performance of the PSU. Since public sector units have larger objectives the indices should be able to capture both the outputs as well as the outcomes. The process of preparing and finalizing the contract is as important as the final quantified targets. It should ensure removal of all doubts and pave the way for clear understanding of the issues involved.

3.4.2 A typical performance contract could have the following sections: Accepted.

- (1) Giving the background of creation of the PSU, regulations concerning it, its performance in the past etc.
- (2) Setting out the objectives of future action and delineate the strategies.
- (3) Indicating the achievements to be made during the contract period.
- (4) Spelling out the performance criteria for measuring the performance.
- (5) Explaining Government's commitments.
- (6) Describing how the monitoring would be done and how issues arising out of the contract are to be resolved.

3.5 Monitoring System

3.5.1 Corporate plans and performance contracts would end up as pious documents unless there is a rigorous monitoring system in place. The monitoring should be on the basis of the deliverables brought out in the performance contract. A regular reporting system should be evolved on the basis of this and the proposed Public Enterprise Authority (PEA) could be entrusted with the task of monitoring. Also Annual Reports based on certain general guidelines need to be prepared by PSUs and submitted to Government. A Signaling system must be put in place so that warning signals are detected at the earliest. The sum and substance of the monitoring exercise should be presented to the legislature by the concerned Department every year before 30th June.

Accepted.

3.5.2 To assess the relative strengths and weaknesses of various PSUs, benchmarking of the industry needs to be carried out. The PEA may be asked to carry out necessary benchmarking studies with the help of relevant industry experts.

Accepted.

3.6 Ensuring Accountability

3.6.1 In addition to performance reviews, the regular audit system both internal and external needs to be strengthened. For all the major PSUs internal audit cells may be activated by giving proper training and drawing up manuals for internal audit. The PEA could monitor the updation of accounts required for auditing. As in the case of local Governments there should be a time limit for preparing of accounts for the purpose of audit failing which punitive action should be taken against the management.

Recommendation regarding the strengthening of regular audit system both internal and external in addition to performance reviews of Public Sector Undertakings is accepted. Refer Government decision on Para 3.11 also.

Presently, the audit of a particular year is taken up only after the audit of the previous year is completed. Since completion of audit requires that after the accounts are audited they have to be approved by the Annual General Body meeting, then sent for comments of the Finance Department and later for Accountant General's Audit, the whole process takes around 6 to 8 months. Therefore, it would not be possible for companies having arrears of audit to come up to the current stage in a short period. Government may consider allowing companies having more than two years of audit arrears to proceed with next years audit once the Annual General Body has approved the same. This one-time concession may be allowed to all companies having audit arrears of two years or more to become up to date within a year failing which the Managing Director is to be held personally responsible.

- 3.6.2 In addition to the regular audit, value for money auditing may be done to ensure that effectiveness, efficiency and economy are brought out. This is very important for public sector organizations. As above.
- 3.7. **Grouping of Companies**
- 3.7.1 In order to rationalize the interaction with Government and also to attain strength of grouping it is suggested that Sector Commissions or Enterprise Groups may be set up for groups of similar industries. This concept outlined by the Steering Committee for the VIII Plan is worthy of experimentation; as the holding company concept does not seem to have achieved the desired results. Each Sector Commission or Enterprise Group would have its own professional support systems in the form of technical advisory groups. It would have representatives of the Companies under it, experts in the sector, representatives of private groups and even workers and consumers. The system would not affect the autonomy of the individual company while giving it necessary collective strength and facilitating infrastructural synergies. Recommendations regarding grouping of similar industries is not accepted. Instead of grouping, the similar industries may merge and bring under a single board of directors.
- 3.7.2 Even for individual units an optimum size may be prescribed. There should be no PSUs below that level of investment, which may vary, with the nature of the industry. Accepted.
- 3.7.3 A consensus may be evolved on the future of PSUs which are not viable after infusion of reasonable quantum of funds commensurate with their size and potential and the PSUs which have been having little or no operations for quite some time. Accepted.
- 3.8. **Management**
- 3.8.1 All Companies should have professional chairmen full time or part time, according to availability and need. They should have full time functional Directors from the Company and the number can be decided according to the size of the Company. Besides having a representative of the workers, the Director Board should have at least a fourth of its membership from experts in the sector including from the private sector. Governmental representation should be limited to two, representing the concerned Administrative Department and the Finance Department. For identified key units a two-tier system of Management Board can be tried out a top policy making body with an active Executive Committee under it. Directors should be given proper training for which a tailor made course could be designed by a top-notch management institute. Accepted.
- 3.8.2 There should be an independent Selection Board for selecting various senior personnel including the Managing Director. An autonomous selection agency for other staff also needs to be set up through a core unit, which can outsource its service requirements. This recommendation should be made applicable only for CEOS.

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3.8.3	Managing Directors of PSUs should have a fixed tenure and should be under contractual obligation to make up for losses incurred through misappropriation/defalcation etc. even after their tenure.	Accepted.
3.8.4	The proposed PEA should undertake a detailed study of the existing staff and wherever there is a surplus, redeployment should be done and wherever there is lack of skill retraining has to be arranged-Redundant or under-utilized or under-qualified staff should in no case be allowed to exist in public sector units.	The KARC has recommended that a detailed study of the existing staff in Public Sector Undertakings should be undertaken. Redundant or under-utilized or under-qualified staff should not be allowed to exist in Public Sector Undertakings. This recommendation is accepted.
3.8.5	Besides, the pre-dominance of lower level staff in most PSUs should be checked. Higher managerial positions in the PSUs should be made attractive and performance linked salary structure for the top management may be evolved.	Government observed that it is not the predominance of the lower staff that needs to be checked. Whether the number of staff in any category (whether lower level or managerial) is disproportionate is to be examined and corrective steps taken.
3.8.6	In selected cases contracting out management can be tried which will facilitate better use of assets without diluting ownership pattern; even while fetching some royalty.	Accepted.
3.9.	Human Resource Development	
3.9.1	In the rapidly changing environment in which PSUs are functioning, to face the tough management challenges, it is necessary to have a comprehensive and coherent management training and development programme for PSU staff. RIAB has already taken steps for covering 3000 executives through a training needs assessment. Based on such assessment by an expert agency and integrating the training components of the Corporate Plans, a manpower development plan for PSUs may be drawn up and supported by Government. Big PSUs should have an internal training cell and all PSUs should have a training Co-ordinator. As far as possible, training skills may be nurtured in-house. Also, a Training Network may be developed in the State including IIM, Kozhikode, IMG, CMD and CDS. The training should provide opportunities for—	Accepted.
	<ol style="list-style-type: none"> (1) Improving knowledge of specific functions of the organization like production, maintenance, marketing etc. (2) Upgrading skill is the important management tasks like work organization, personnel management, behavioral change etc. (3) Developing capacity for quantifying and measuring enterprise performance. (4) Enhancing technical knowledge relevant to the unit. (5) Understanding the business environment to enable forecasting of changes. 	

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3.9.2	Up to junior-middle-management level, the training may be conducted within the unit and above that in institutions.	Accepted.
3.9.3	Government may encourage setting up of a Public Sector Management Association for sharing skills. Wherever possible twining of enterprises with similar units in the public or private sector may be attempted for management development.	Accepted.
3.9.4	Also an expert panel may be set up to draw up a research agenda, which can contribute, to improving public enterprise performance.	Accepted.
3.9.5	Apart from general management training, specific industry related training and awareness of latest developments needs to be emphasized. Suitable rewards should be given for PSU employees presenting papers in national and international technical seminars. Companies should also evolve systems to encourage its personnel to acquire higher and latest technical knowledge.	Accepted.
3.10.	Information Technology	
3.10.1	Information Technology should be used as a tool to improve the productivity and competitiveness of all PSUs. Therefore, all PSUs should be brought under a uniform IT network in a time bound manner. Such an exercise can be implemented through a joint funding from PSUs and partially from Government. While profit-making PSUs can be expected to meet the full cost of computerization, the loss-making PSUs may be asked to meet partial cost of the computerization. It is relevant to mention that while IT as an industry is being developed in the state, industry has hardly used IT to improve its productivity, efficiency and competitive edge. This is where the real strength of IT lies and PSUs should necessarily be asked to take advantage of this.	Accepted.
3.11.	Institutional set up	
3.11.1	The Public Enterprise system should consist of three layers viz., the Government, a professional body for facilitation and co-ordination and the enterprise group and their units with their management boards. In order to enable efficient functioning of PSUs, it is necessary to redefine the roles of the components of the system as clearly as possible, in writing. Based on this the rules, Government orders, directions etc., may be recast so that new operating procedures come into being. The roles of the top two layers are suggested below:	The KARC has recommended the setting up of a Public Enterprise Authority (PEA). Government did not favour setting up of new authorities. RIAB and the Public Enterprise Restructuring Committee can attend to the functions proposed to be undertaken by the PEA.
	(1) The Government Departments, which have a role in supervising the PSUs are the Industries Department, the Finance Department and the Planning Department. The roles of these three Government agencies could be:	
	(a) Industries Department	
	Lay down Sector Policy	
	Approve Corporate Plans and sign Performance contracts	
	Monitor Performance	
	Ensure accountability through audit.	
	Clear new investments, expansions, mergers, disinvestments etc.	
	Approve borrowing.	
	Decide on the management structure.	
	Appoint Chief Executive/Directors	

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(b) Finance Department

Be consulted on and approve matters involving flow of funds from Government, guarantees by Government, new investments. Monitor of financial performance.

(c) Planning Department

Be consulted on all matters involving flow of plan funds.

(2) At the next level would come an organization, which serves as a professional intermediary between the PSUs and Government. At this level it is recommended that a statutory Public Enterprise Authority (PEA) may be set up in the place of the existing institutions. It can have separate groups for public utilities, welfare organizations and manufacturing units. The PEA could be an autonomous professional organization with the staff support being initially provided by the abolition of BPE, PEB and RIAB; the Authority proper may consist of:

Chief Secretary	..	Chairman
Secretary (Industries)	..	Vice Chairman
Secretary (Finance)	..	Member
Secretary (Planning)	..	Member
Secretary of concerned Administrative Department	..	Part-time Member
One expert on Financial Management and Audit	..	Member
Heads of Sector Commissions/Enterprises Groups	..	Members
Representative of an academic institution involved in management development training	..	Member
National level experts on key sectors	..	Special invitees/ Part-time Members
Two representatives of Financial Institutions	..	Members
Professional head of PEA	..	Convener

(For those who are not ex-officio members, a tenure of five years is suggested)

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| 3.11.2 | At present institutions like RIAB intervene either in the decline phase of an enterprise or mostly at the decay phase. The PEA is expected to be involved in the stabilization phase itself. It can set up early warning systems to prevent decline. Acting as owner's representatives it can push, co-ordinate and even implement initiatives for revitalization. Gradually it could develop competence to function as a policy support unit for promoting enterprise competitiveness. | Refer Govt. decision on Para 3.11. regarding setting up of a Public Enterprise Authority (PEA). |
| 3.11.3 | The PEA could set up expert committees for going into questions of revitalization, upgradation, diversification etc. The Industries, Planning and Finance Departments should be represented in these committees. The expert committees could make a presentation of the proposals before the Public Enterprise Authority and the representatives of the | As above |

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concerned Departments could attend this presentation. The concerned Government Departments could raise the issue of clarification as well as ask queries in this forum. The Public Enterprise Authority should facilitate direct tripartite interaction among the experts, the PSU and the Government Departments. Based on this interaction and the replies furnished to the queries, the departments could jointly formulate their response and in case of deadlock the Chairman of the Public Enterprise Authority could review and recommend an appropriate course of action to the Council of Ministers.

- 3.11.4 The whole process should have the following schedule: Accepted.
- Day 1—Presentation.
- Day 7—Raising of queries; clarification and issues for queries.
- Day 20—Tripartite interaction.
- Day 30—Finalization of views.
- Day 45—Presentation for Council of Ministers. (Wherever review by the Chairman of the Public Enterprise Authority is required another 15 days could be added to the schedule)
- 3.12. **Fund flow to PSUs**
- 3.12.2 All funds both from the Government coffers and from the market should be managed by a fund management group in the Public Enterprise Authority. And funds should be released only against clear action plans incorporated in the performance contract and diversions should be penalized. Accepted.
- 3.12.3 From a long-term point of view and with a view to reducing friction with Government, it is suggested that as a Government policy, all loans may be converted into equity. And in future loans should have an interest rate reflecting the cost of that money to Government. Accepted.

The Administrative Departments of the Secretariat and the Heads of Departments concerned will issue necessary orders for implementing the recommendations approved herein.

By order of the Governor,
DR. K. M. ABRAHAM,
Secretary to Government.

To

The Principal Secretaries/Special Secretaries to Government.
All Departments of the Secretariat including Law & Finance.
All District Collectors and All Heads of Departments.
The Director of Public Relations
The Accountant General (A&E), Kerala, Thiruvananthapuram.
The Principal Accountant General (Audit), Kerala, Thiruvananthapuram.
The Private Secretary to Chief Minister and other Ministers.
The Private Secretary to the Leader of Opposition and Chief Whip.
The Additional Secretary to Chief Secretary.
The General Administration (SC) Department.