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IMPACT OF RECENT LEGAL REFORMS ON THE GOVERNANCE STRUCTURE AND PERFORMANCE OF PSUs IN INDIA

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IMPACT OF RECENT LEGAL REFORMS ON THE GOVERNANCE STRUCTURE AND PERFORMANCE OF PSUs IN INDIA

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SYNOPSIS

Title: Impact of Recent Legal Reforms on the Governance Structure and Performance of Public Sector Undertakings (PSUs) in India.

Introduction:

Public Sector Undertakings (PSUs) have a crucial impact on India's economy, making substantial contributions to the construction of infrastructure, the generation of employment, and the promotion of socio-economic prosperity.

Over time, the way in which public sector undertakings (PSUs) are governed and their performance have been closely examined, with demands for increased openness, accountability, and effectiveness. The Indian government has implemented several legal steps to improve the governance framework of these entities, acknowledging the necessity for reforms.

Review of Literature:

“Corporate Governance in Public Sector Undertakings: A Case Study of Indian Companies” by A. Singh¹, in this article the governance of Public Sector Undertakings (PSUs) in India has been a subject of scholarly inquiry for decades.

“Role of Public Sector Undertakings (PSUs) in Indian Economy” by S.M. Rao², in this article historically, PSUs have played a significant role in the Indian economy, serving as instruments for implementing government policies and promoting industrial development.

“Governance of Public Sector Undertakings in India: Problems and Prospects” by P. Gupta³, in this article the governance framework governing these entities has faced scrutiny due to issues related to bureaucratic interference, lack of autonomy, and inefficiencies.

“Impact of Governance Reforms on the Performance of Indian Public Sector Undertakings” by R. Patel⁴, in this article several studies have examined the impact of governance reforms on the performance of PSUs in India.

¹ Singh, A. (2018): “Corporate Governance in Public Sector Undertakings: A Case Study of Indian Companies”. *Journal of Public Administration and Governance*, 8(1), 147-161.

² Rao, M.S. (2019). “Role of Public Sector Undertakings (PSUs) in Indian Economy.” *International Journal of Management and Humanities*, 4(3), 37-42.

³ Gupta, P. (2017). “Governance of Public Sector Undertakings in India: Problems and Prospects.” *International Journal of Applied Business and Economic Research*, 15 (18), 243-254.

⁴ Patel, R. (2020). “Impact of Governance Reforms on the Performance of Indian Public Sector Undertakings.” *Journal Governance and Regulation*, 9 (4), 210-220.

Statement of Problem:

PSUs in India have traditionally had governance obstacles that impede their effectiveness, openness, and responsibility. Notwithstanding numerous attempts at reform, substantial problems continue to exist within the governance framework of Public Sector Undertakings (PSUs), which have a direct impact on their overall performance and contribution to the economy. The problem statement emphasizes critical areas of concern that require additional analysis and intervention:

1. Political Interference and Lack of Autonomy.
2. Inadequate Board Effectiveness and Independence
3. Limited Transparency and Accountability.
4. Suboptimal Financial and Operational Performance
5. Challenges in Implementing Governance Reforms

Research Objectives:

1. To evaluate the impact of recent legal reforms on governance structure.
2. To examine the effect of legal reforms on performance metrics.
3. To identify challenges and opportunities in reform implementation.
4. To assess stakeholder perceptions and satisfaction.
5. To provide policy recommendations for further improvement.

Research Questions:

1. How have recent legal reforms impacted the governance structure of Public Sector Undertakings (PSUs) in India, particularly in terms of board composition, roles, and decision-making processes?
2. What is the effect of legal reforms on the financial performance metrics of PSUs, including profitability, efficiency, and debt management?
3. How have non-financial performance metrics, such as corporate social responsibility initiatives, innovation, and stakeholder engagement, been influenced by recent legal reforms in PSUs?
4. What are the main challenges encountered in the implementation of legal reforms aimed at enhancing governance in PSUs, and what opportunities exist for overcoming these challenges?

5. What are the perceptions of various stakeholders, including shareholders, employees, regulators, and the general public, regarding the effectiveness of governance reforms in PSUs post-implementation?

Research Methodology:

The researcher intends to adopt doctrinal method of study. The nature of research is intended to be descriptive and analytical. The research methodology employed in this study combines qualitative analysis of legal reforms with quantitative assessment.

Data for study will be gathered from both primary sources, such as the statutes, government policy documents, case laws as well as secondary sources, such as textbooks, journals, articles, both online and offline. The citation method that will be used is Harvard Bluebook [20th Edition].

Hypothesis:

1. Recent legal reforms have led to improvements in the governance structure of Public Sector Undertakings (PSUs) in India.
2. Legal reforms have positively influenced the financial performance metrics of PSUs, including profitability, efficiency, and debt management.

Scope and Limitations of Study:

The study covers various aspects of legal reforms on the governance structure and performance of Public Sector Undertakings (PSUs) in India by the Academicians, Policy makers, Administrators on legislative framework, governance structure, performance evaluation and case studies.

Despite the comprehensive scope of the study, several limitations need to be acknowledged. Firstly, the availability and reliability of data from secondary sources, such as financial reports and regulatory filings, may vary across PSUs, potentially limiting the depth and scope of the analysis.

Significance of Research:

The research holds significant implications and benefits of various stakeholders, including policymakers, PSU management, investors, and the broader public like policy formulation and implementation, enhanced corporate governance, improved performance and efficiency, investor confidence and stakeholder trust for development the socio-economic goals in India.

Tentative Chapterization:

In addition to the introductory chapter, the research is proposed to be divided into the following chapters:

Chapter I – Introduction

- Background and significance
- Review of Literature
- Statement of Problem
- Objectives of the Study
- Research Questions
- Research Methodology
- Hypothesis
- Scope of study
- Significance of research

Chapter II – Conceptual Frameworks

- Governance Challenges in PSUs
- Impact of Legal Reforms on Governance
- Performance Metrics in PSUs
- Theoretical Frameworks
- Stakeholder Perspectives
- Regulatory Framework and Compliance
- Governance Structure in PSUs
- Performance Measurement Framework
- Stakeholder Theory and Engagement

Chapter III – Legal Reforms and Governance Structure

- Overview of recent legal reforms
- Changes in Board Composition and Roles
- Transparency and Accountability Mechanisms
- Decision-Making Processes.

Chapter IV – Case Laws

- Laws related to PSUs

Chapter V – Challenges and Opportunities

- Implementation challenges of legal reforms
- Opportunities for improvement and innovation
- Regulatory Compliance Issues.

Chapter VI – Conclusion

- Summary of key findings and insights gleaned from the analysis
- Implications for policy and practice
- Future Research Directions

Bibliography:

1. **Books:** Gupta, A., & Sharma, R. (2019). Corporate Governance in India: Change and Continuity. Sage Publications.
2. **Journal Article:** Mishra, P., & Mohanty, P. K. (2018). Impact of Corporate Governance Reforms on Firm Performance: Evidence from India. Journal of Corporate Finance, 47, 168-190.
3. <https://www.sebi.gov.in/reports/reports.html>

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Table of Contents

S. No.	Particulars	Page No. FM TO	Signature
1.	Chapter – I: Impact of Recent Legal Reforms on the Governance Structure and Performance of Public Sector Undertakings (PSUs) in India	10 – 13	
2.	Chapter – II: Conceptual Framework	14 – 30	
3.	Chapter – III: Legal Reforms and Governance Structure	31 – 37	
4	Chapter – IV: Case Laws	38 – 40	
5	Chapter – V: Challenges and Opportunities	41 – 46	
6	Chapter – VI: Conclusion	47 – 50	
7	Bibliography	51	

Abbreviations:

ADB – Asian Development Bank

AGMs – Annual General Meetings

ATSR – Absolute Total Shareholder Return

BSE – Bombay Stock Exchange

CAG – Comptroller and Auditor General

CEO – Chief Executive Officer

CPSEs – Central Public Sector Enterprises

CSR – Corporate Social Responsibility

CVC – Central Vigilance Commission

DPE – Department of Public Enterprise

EPS – Earnings Per Share

ESG – Environmental Social and Governance

GATE – Graduate Aptitude Test in Engineering

HR – Human Resources

IMF – International Monetary Fund

LLC – Limited Liability Company

LODR – Listing Obligations and Disclosure Requirements

MD – Managing Director

MoUs – Memorandums of Understandings

NLRB – National Labour Relations Board

NRCs – Nomination and Remuneration Committees

PSEs – Public Sector Enterprises

PSUs – Public Sector Undertakings

PSUs – Public Sector Units

ROC – Return on Capital

ROCE – Return on Capital Employed

ROE – Return on Equity

ROI – Return on Investment

RTI – Right to Information

SEBI – Securities and Exchange Board of India

SLPEs – State Level Public Enterprises

SOE – State – Owned Enterprise

SWOT – Strength Weakness Opportunities Threats

TSR – Total Shareholder Return

USAID – U.S. Agency for International Development

Cases:

1. Hindustan Zinc Ltd. v. Rajasthan Electricity Regulatory Commission Pg. 40
2. National Thermal Power Corporation Ltd. v. Singer Company Oil and Natural Gas Corporation Ltd. v. Gujarat Energy Transmission Corporation Ltd. Pg. 40
3. Shankar Dass v. Union of India Pg. 39
4. State of Bihar v. Bihar Co-operative Development and Cane Marketing Union Ltd. Pg. 40
5. State of Madhya Pradesh v. Ram Ratan Pg. 39
6. Steel Authority of India Ltd. v. National Union Waterfront Workers Pg. 40

Chapter – I: Impact of Recent Legal Reforms on the Governance Structure and Performance of Public Sector Undertakings (PSUs) in India



Introduction:

Public Sector Undertakings (PSUs) play a vital role in India's economy, contributing significantly to infrastructure development, employment generation, and socio-economic advancement.

Over time, there has been scrutiny of how PSUs are governed and their performance, with calls for increased transparency, accountability, and efficiency. Recognizing the need for reforms, the Indian government has implemented various legal measures to enhance the governance framework of these entities.

Recent years have seen significant legal reforms undertaken by the Indian government to improve the governance mechanisms of PSUs. These reforms encompass several aspects, including corporate governance, accountability, and transparency.

In India, PSUs, or Public Sector Enterprises (PSEs), are government-owned businesses where the Indian government or state government owns 51% or more of the share capital. They may also involve partnerships between multiple PSUs, categorized broadly into Central PSUs and State PSUs based on government ownership.

CPSEs and PSBs are owned by the national government or other CPSEs and PSBs, while SLPEs are owned by state governments or other SLPEs. CPSEs are further classified into Strategic Sector and Non-Strategic Sector, with designations such as Maharatna, Navaratna, or Miniratna based on financial performance and historical significance since India's independence.

PSUs emerged following the Industrial Policy Resolution of 1956, initially focusing on strategic sectors like heavy industries and later expanding into consumer goods and services. They aim to

bolster exports, reduce imports, develop infrastructure, spur economic growth, and create employment opportunities.

Each PSU has its own recruitment policies, with positions highly sought after due to job security. GATE scores are often preferred for PSU recruitment. From just five PSUs in 1951, the number had grown to 365 by March 2021. These entities had invested approximately ₹16.41 lakh crore by March 2019, with a paid-up capital of around ₹200.76 lakh crore. During the 2018–19 fiscal year, CPSEs achieved sales of approximately ₹24.43 lakh crore plus an additional ₹1 lakh crore.

Background and Significance of PSUs:

PSUs, or Public Sector Undertakings, represent state-owned enterprises in India, playing a crucial role in the nation's economy through their contributions to infrastructure development, employment generation, and government revenue. Operating across various sectors like energy, telecommunications, banking, manufacturing, and transportation, PSUs serve as instruments for implementing the government's socio-economic policies, including poverty alleviation, regional development, and industrial growth. Historically, PSUs have been pivotal in driving industrialization and delivering essential services, particularly in remote and underserved regions. However, they encounter challenges such as inefficiency, bureaucratic hurdles, and competition from the private sector. Despite these obstacles, PSUs remain vital components of India's economic framework, harmonizing public welfare with commercial objectives.

Since independence, PSUs have played a fundamental role in shaping India's economic trajectory. They have been instrumental in constructing critical infrastructure such as railways, power plants, and telecommunications networks, laying the groundwork for industrial advancement and modernization. Additionally, PSUs have been significant contributors to employment, offering stable livelihoods to millions nationwide.

Furthermore, PSUs have served as vehicles for implementing government policies aimed at fostering social welfare and equity. For instance, they have been involved in delivering affordable healthcare, education, and housing to marginalized populations. PSUs have also played a pivotal role in advancing regional development by establishing industries in remote and economically disadvantaged areas, thereby mitigating regional disparities.

Review of Literature:

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A. Singh⁵, in this article the governance of Public Sector Undertakings (PSUs) in India has been a subject of scholarly inquiry for decades.

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“Corporate Governance in Indian Public Sector Enterprises: A Critical Analysis” by S. Kumar⁹ in this article, these reforms have included measures to enhance transparency accountability, and board effectiveness.

“Corporate Governance and Performance: A Study of Indian Public Sector Enterprises” A Vision by S.K. Singh & A. Verma¹⁰ in this article scholars have analysed the relationship between governance structures, such as board composition and executive compensation, and financial and operational performance of PSU's.

Statement of Problem:

PSUs in India have traditionally had governance obstacles that impede their effectiveness, openness, and responsibility. Notwithstanding numerous attempts at reform, substantial problems continue to exist within the governance framework of Public Sector Undertakings (PSUs), which have a direct impact on their overall performance and contribution to the economy. The problem statement emphasizes critical areas of concern that require additional analysis and intervention:

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⁵ Singh, A. (2018): “Corporate Governance in Public Sector Undertakings: A Case Study of Indian Companies”. *Journal of Public Administration and Governance*, 8(1), 147-161.

⁶ Rao, M.S. (2019). “Role of Public Sector Undertakings (PSUs) in Indian Economy.” *International Journal of Management and Humanities*, 4(3), 37-42.

⁷ Gupta, P. (2017). “Governance of Public Sector Undertakings in India: Problems and Prospects.” *International Journal of Applied Business and Economic Research*, 15 (18), 243-254.

⁸ Patel, R. (2020). “Impact of Governance Reforms on the Performance of Indian Public Sector Undertakings.” *Journal Governance and Regulation*, 9 (4), 210-220.

⁹ Kumar, S. (2016). “Corporate Governance in Indian Public Sector Enterprises: A Critical Analysis”. *Global Journal of Management and Business Studies*. 6(5), 505-512.

¹⁰ Singh, S. K., & Verma, A. (2018). "Corporate Governance and Performance: A Study of Indian Public Sector Enterprises". *Vision: The Journal of Business Perspective*, 22(3), 272-282.

3. Limited Transparency and Accountability.
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1. How have recent legal reforms impacted the governance structure of Public Sector Undertakings (PSUs) in India, particularly in terms of board composition, roles, and decision-making processes?
2. What is the effect of legal reforms on the financial performance metrics of PSUs, including profitability, efficiency, and debt management?
3. How have non-financial performance metrics, such as corporate social responsibility initiatives, innovation, and stakeholder engagement, been influenced by recent legal reforms in PSUs?
4. What are the main challenges encountered in the implementation of legal reforms aimed at enhancing governance in PSUs, and what opportunities exist for overcoming these challenges?
5. What are the perceptions of various stakeholders, including shareholders, employees, regulators, and the general public, regarding the effectiveness of governance reforms in PSUs post-implementation?

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Data for study will be gathered from both primary sources, such as the statutes, government policy documents, case laws as well as secondary sources, such as textbooks, journals, articles, both

online and offline. The citation method that will be used is Harvard Bluebook [20th Edition].

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Despite the comprehensive scope of the study, several limitations need to be acknowledged. Firstly, the availability and reliability of data from secondary sources, such as financial reports and regulatory filings, may vary across PSUs, potentially limiting the depth and scope of the analysis.

Significance of Research:

The research holds significant implications and benefits of various stakeholders, including policymakers, PSU management, investors, and the broader public like policy formulation and implementation, enhanced corporate governance, improved performance and efficiency, investor confidence and stakeholder trust for development the socio-economic goals in India.

Chapter – II: Conceptual Framework

A conceptual framework in the context of Public Sector Units (PSUs) elucidates a theoretical structure outlining the fundamental principles, objectives, and guidelines governing the operations, administration, and oversight of these entities. It serves as a theoretical roadmap for understanding the roles of PSUs, their interactions with stakeholders, and the underlying principles guiding their operations. The following are primary components typically included in a conceptual framework for PSUs:

1. **Government Ownership and Answerability:** PSUs are government-owned or controlled, implying a duty to serve the public interest. The framework underscores the obligation to be accountable to taxpayers, citizens, and government authorities for the efficient and effective utilization of resources.
2. **Public Service Focus:** PSUs are established to provide essential goods and services catering to public needs. The framework stresses the importance of prioritizing public welfare over profit maximization and ensuring fair access to services.
3. **Governance Principles:** The framework delineates principles of effective governance, including transparency, accountability, integrity, and stakeholder participation. It highlights the roles of the board of directors, management, and oversight mechanisms in ensuring robust governance practices.
4. **Ethical Standards and Integrity:** PSUs are expected to maintain high ethical standards across all activities, including procurement, employment practices, and decision-making processes. The framework advocates for fostering a culture of integrity, professionalism, and ethical behaviour throughout the organization.
5. **Financial Viability:** PSUs must ensure financial sustainability to fulfil long-term objectives and obligations. The framework incorporates principles for prudent financial management, budgetary discipline, and risk management to ensure the viability and stability of PSUs.
6. **Social Responsibility and Impact:** PSUs have a broader responsibility to contribute to societal welfare, economic development, and environmental sustainability. The framework underscores the significance of social responsibility initiatives, community engagement, and environmental stewardship.
7. **Stakeholder Engagement and Participation:** The framework emphasizes engaging with various stakeholders, including employees, customers, communities, government agencies, and regulators. It promotes dialogue, consultation, and collaboration to address stakeholder needs and concerns.

8. Innovation and Adaptation: PSUs must innovate and adapt to changing circumstances, technological advancements, and evolving stakeholder expectations. The framework encourages fostering a culture of innovation, continuous improvement, and agility to remain relevant and competitive.
9. Performance Management and Accountability: PSUs need to establish performance metrics, goals, and targets aligned with their mission and objectives. The framework highlights the importance of measuring performance, evaluating outcomes, and holding management accountable for results.
10. Regulatory Compliance and Legal Framework: PSUs operate within a complex regulatory environment governed by laws, regulations, and policies. The framework underscores the necessity of compliance with legal requirements, regulatory standards, and industry best practices.

Governance Challenges in PSUs

The governance dilemmas encountered within Public Sector Undertakings (PSUs) present a substantial issue for policymakers and stakeholders within India. The governance framework within PSUs comprises three distinct tiers: the Owner (Government), Board, and Executive Management. The Board assumes a pivotal position and bears the primary accountability for PSU efficacy. It comprises three branches: Functional Directors, Government Nominee Directors, and Independent Directors. The function of Independent Directors holds particular significance within the realm of corporate governance, serving as vigilant overseers with an external perspective, thereby offering adaptability and impartiality in the organization's operations. Nevertheless, there are increasing difficulties concerning the selection and reinforcement of the role of Independent Directors in PSUs. Ensuring the appropriate number of Independent Directors has proven to be problematic for PSUs, resulting in numerous unfilled positions not attributable to their own shortcomings. The Companies Act of 2013 has assigned a significant and formidable responsibility to Independent Directors, granting them a deserved position in various Board Level Committees.¹¹

The autonomy of PSU boards presents another challenge, as they lack a clear ownership policy, with the government assuming responsibility for minority stakeholders, employees, vendors, customers, and communities. The absence of such a policy has resulted in governmental influence

¹¹ <https://www.primedatabase.com/article/2017/12.Article-U.D.Choubey.pdf>

over PSU boards' agendas, undermining their autonomy. Furthermore, the appointment of directors to PSU boards is problematic, as PSUs often fail to meet the minimum guidelines outlined by SEBI and the requirements stipulated in the Companies Act of 2013, as highlighted by the Comptroller and Auditor General of India (CAG) in its audit. Excessive regulation has compounded these issues, created accountability problems and undermined corporate governance in PSUs. The legal provisions and guidelines set forth by SEBI and the Department of Public Enterprises (DPE) have impacted PSU corporate governance, burdening them with numerous rules and regulations to adhere to.¹²

Governance issues within Public Sector Undertakings (PSUs) can manifest in various forms and complexities. Here are several prevalent challenges confronted by PSUs regarding governance:

1. **Political Meddling:** PSUs frequently contend with political pressures and interventions, impacting decision-making processes, appointments, and strategic trajectories. Political agendas may clash with the long-term interests of PSUs, hindering effective governance.
2. **Administrative Obstacles:** Excessive bureaucracy and convoluted administrative procedures can impede the agility and effectiveness of PSUs. Decision-making might be stalled, and operational flexibility could be curtailed due to bureaucratic red tape.
3. **Limited Autonomy:** PSUs may face constraints in decision-making autonomy, often bound by governmental regulations, policies, and directives. This constraint limits their capacity to promptly adapt to market shifts and evolving business landscapes.
4. **Board Governance Inefficiencies:** PSU boards may grapple with issues related to composition, independence, and efficacy. Challenges such as conflicts of interest, board member proficiency, and insufficient oversight mechanisms can undermine governance processes and accountability.
5. **Transparency and Accountability:** Upholding transparency and accountability in PSUs proves challenging, particularly when reporting mechanisms, disclosure practices, and internal controls are deficient. Inadequate transparency risks eroding public trust and confidence in PSU operations.
6. **Financial Mismanagement:** PSUs may encounter challenges concerning financial mismanagement, including budgetary constraints, inefficiencies in resource allocation, and deficient financial controls. Such issues can result in financial losses, operational inefficiencies, and compromised service provision.

¹² <https://taxguru.in/company-law/analysis-corporate-governance-psus.html>

7. **Ethical Dilemmas:** Ethical breaches, such as corruption, nepotism, and favouritism, present significant governance hurdles in PSUs. Failing to uphold ethical standards can jeopardize the integrity and effectiveness of PSU operations.
8. **Human Capital Management:** Issues concerning the management of human resources, such as recruitment, retention, training, and performance assessment, can impact governance within PSUs. Deficiencies in HR practices might lead to shortages in talent, discrepancies in skills, and organizational inefficiencies.
9. **Risk Oversight:** PSUs encounter a multitude of risks, encompassing financial, operational, reputational, and regulatory aspects. Inadequate identification, evaluation, and mitigation of these risks can jeopardize governance and expose the PSU to significant vulnerabilities.
10. **Technological Integration:** Adapting to technological advancements and harnessing digital innovations pose governance hurdles for PSUs. Challenges like cybersecurity vulnerabilities, data privacy issues, and deficiencies in digital infrastructure necessitate proactive governance measures to mitigate risks and capitalize on opportunities.

Impact of Legal Reforms on Governance

The impact of legal reforms on governance in Public Sector Undertakings (PSUs) in India has been significant, aiming to enhance transparency, accountability, and efficiency within these organizations. The Companies Act, 2013 and Securities and Exchange Board of India (SEBI) regulations have played a crucial role in shaping the governance landscape of PSUs. These legal reforms have introduced key components such as independent directors, audit committees, enhanced disclosure requirements, and governance frameworks based on pillars like transparency, full disclosures, independent monitoring, and fairness to all stakeholders.¹³

Legal reforms can profoundly influence governance within Public Sector Units (PSUs), aiming to enhance transparency, accountability, efficiency, and overall effectiveness of governance mechanisms. Below are key ways in which legal reforms can impact governance in PSUs:

1. **Augmented Transparency:** Legal reforms may mandate increased transparency in PSU operations, including regular disclosure of financial information, decision-making processes, and performance metrics. This transparency fosters public trust and confidence in PSU activities.
2. **Reinforced Accountability:** Legal reforms often focus on strengthening mechanisms to hold PSU officials accountable, establishing clear lines of accountability, implementing

¹³ <https://grdspublishing.org/index.php/people/article/view/942>

- performance evaluation systems, and enforcing consequences for misconduct or negligence. Strengthened accountability helps deter corruption and inefficiency.
3. **Enhanced Corporate Governance:** Legal reforms may introduce or elevate corporate governance standards applicable to PSUs, such as requirements for independent board members, transparent board appointments, and delineated board responsibilities. Improved corporate governance ensures effective oversight and strategic direction.
 4. **Mitigated Political Interference:** Legal reforms may aim to reduce political interference in PSU operations by measures like depoliticizing appointments, instituting merit-based selection criteria, and clarifying government officials' roles in PSU governance. This reduction enhances PSU autonomy and independence.
 5. **Simplified Regulatory Framework:** Legal reforms can streamline the regulatory framework governing PSUs, reducing bureaucratic hurdles and enhancing operational efficiency. This may involve simplifying licensing procedures, harmonizing regulatory requirements, and eliminating redundant regulations, facilitating smoother governance processes.
 6. **Enhanced Stakeholder Engagement:** Legal reforms may require increased stakeholder engagement in PSU governance processes through public consultations, stakeholder representation on governing bodies, and mechanisms for addressing stakeholder concerns. This fosters inclusivity and ensures diverse perspectives in decision-making.
 7. **Enforcement of Ethical Standards:** Legal reforms may establish or reinforce regulations concerning ethical conduct within PSUs, such as codes of conduct, conflict of interest policies, and whistleblower protection mechanisms. Enforcement of ethical standards cultivates a culture of integrity and professionalism within PSUs.
 8. **Encouragement of Innovation and Adaptation:** Legal reforms may incentivize PSUs to innovate and adapt to changing circumstances by removing barriers to innovation, providing incentives, and facilitating partnerships with the private sector. This promotes PSU competitiveness and responsiveness to evolving needs.

Legal reforms have exerted a profound influence on governance within India's Public Sector Undertakings (PSUs), fostering notable improvements across several key domains.

Initially, these legal reforms have ushered in stricter corporate governance standards, encompassing the appointment of independent directors, the establishment of audit committees, and the disclosure of financial information. Such measures have bolstered transparency and accountability in PSU operations, rendering them more appealing to investors and stakeholders.

Moreover, these reforms have bolstered the governance of state-owned enterprises by instituting national Regulatory Commissions since 2005. These commissions have played a pivotal role in ensuring uniformity and accountability in the regulatory landscape governing PSUs.

Furthermore, the economic reforms of 1991 have left a marked impact on PSU performance. The revamped industrial policy mandates listed PSUs to adhere to stock exchanges' listing requirements, thereby necessitating compliance with disclosure and governance regulations. Consequently, PSU performance has seen enhancements, with Memorandums of Understanding (MoUs) contributing positively by elevating their return on capital (ROC) by nearly 8-9 percentage points.

In addition, legal reforms have underscored the significance of accountability, transparency, and stakeholder trust in the public sector. By adhering to corporate governance principles, PSUs have managed to instil confidence among stakeholders, spanning customers, suppliers, employees, shareholders, bankers, and the broader society.

Lastly, legal reforms have emphasized the adoption of international best practices, such as regulatory impact assessments and public consultations, to fortify the regulatory governance framework in India. This approach has been pivotal in enhancing the regulatory landscape for PSUs, fostering consistency and accountability across various regions.

Performance Metrics in PSUs

Performance measurement in Public Sector Undertakings (PSUs) plays a pivotal role in assessing their effectiveness, attracting investment, and upholding accountability and transparency. One such metric is the S&P BSE PSU index, tailored by BSE Ltd to gauge PSU performance, serving as a valuable tool for investors and stakeholders to monitor PSU performance.

In recent times, absolute total shareholder return (ATSR) has gained prominence as a performance metric, especially in the upstream oil and gas sector. ATSR, which encompasses both capital gains and dividends over a specific period, is favoured by investors as it signals a firm commitment to aligning with shareholder interests.¹⁴

Another notable performance measure is Performance Share Units (PSUs), a form of equity-based compensation typically awarded to executives and senior managers. PSUs are earned and converted into company shares based on achieving predetermined performance targets over a set period. They serve to align employee interests with company performance, incentivize strategic goal achievement, and aid in retaining key talent.

¹⁴ <https://www.meridiancp.com/insights/absolutely-the-story-of-a-psu-performance-metric/>

PSUs can be categorized as either time-based or performance-based. Time-based PSUs vest based on tenure or a specified period, while performance-based PSUs necessitate meeting specific performance benchmarks, such as revenue or earnings per share targets, to earn shares. Performance-based PSUs directly link rewards to company performance.

While performance metrics like the S&P BSE PSU index, ATSR, and PSUs are invaluable for assessing PSU performance, there are potential drawbacks to consider. These include the complexity in design and administration, challenges in setting fair and achievable performance goals, volatility in payouts due to market and company conditions, and potential dilution of existing shareholders' ownership. Moreover, companies utilizing PSUs must adhere to financial reporting requirements, recognizing compensation expenses and disclosing outstanding awards in financial statements. Additionally, they need to address tax implications for both the company and employees and comply with relevant securities, employment, and corporate governance laws.¹⁵

Crafting a robust PSU plan involves multiple stages, starting with grasping the plan's purpose, selecting appropriate performance metrics, and ensuring transparent communication. The chosen metrics should align with the company's strategic objectives and be clearly communicated to employees, who need to comprehend the plan's objectives, potential benefits, performance indicators, and vesting schedule.

Evaluating the efficacy of a PSU plan is paramount, involving a review of its outcomes, employee engagement, and motivation levels. Based on these assessments, necessary adjustments should be implemented to maintain the plan's dynamism and alignment with evolving business requirements and market conditions.

In the oil and gas sector, absolute total shareholder return (ATSR) has emerged as a favoured performance metric for PSUs, signifying a strong commitment to aligning with shareholder interests. However, ATSR poses significant challenges as an incentive metric for management teams in a sector prone to cyclical fluctuations, where stock price performance is predominantly influenced by commodity price shifts.

In the legal tech sector, critical metrics for evaluating PSU initiatives encompass employee tenure, turnover rates among PSU recipients, return on investment (ROI), earnings per share (EPS), and total shareholder return (TSR). These metrics provide clarity, inform decision-making processes, and steer companies toward maintaining effective and exemplary PSU programs.

¹⁵ <https://www.financestrategists.com/financial-advisor/long-term-incentive-plans/performance-share-units-psu/>

Theoretical Frameworks

The theoretical framework guiding the analysis of Public Sector Undertakings (PSUs) in India revolves around several foundational concepts:¹⁶

1. **Role of PSUs in the Indian Economy:** PSUs, established by an Act of Parliament or as government departmental enterprises in sectors like Defense, railways, or telecommunications, play a crucial role in creating essential economic infrastructure and fostering social development. However, their potential to deliver enhanced value hinges on sharpening their commercial focus.
2. **Corporate Governance Framework:** The corporate governance framework of PSUs rests on four pillars: Transparency, Full disclosures, independent monitoring, and Fairness to all stakeholders.
3. **Challenges in Adhering to Corporate Governance:** PSUs encounter various hurdles in upholding corporate governance standards, including issues of accountability, transparency, political interference, and limited autonomy.
4. **Performance Metrics:** Performance evaluation in PSUs relies on metrics such as Return on Capital (ROC) and Total Shareholder Return (TSR) to gauge their effectiveness.¹⁷
5. **Reforms and Performance:** Despite the economic reforms of 1991 that dismantled the "license-raj," PSUs remained largely intact. Efforts to enhance their performance included implementing performance contracts known as Memorandum of Understandings (MoUs), which yielded some success but still left a significant number of PSUs operating at a loss.
6. **Leadership and Management:** Effective leadership in PSUs necessitates qualities like a positive leader personality, strong communication skills, adaptability to change, a focus on relationships, HR expertise, and sound decision-making abilities. Key HR priorities in PSUs include staffing, training, development, and performance management initiatives.

Stakeholder Perspectives

Gaining insight from stakeholder perspectives is essential for grasping the intricacies of Public Sector Undertakings (PSUs) in India. Stakeholders within PSUs encompass a diverse array, including the government, board, executive management, independent directors, and various others such as employees, customers, suppliers, bankers, and society at large. Evaluating the strengths, weaknesses, opportunities, and threats (SWOT) concerning the relationships between

¹⁶ ASSESSING THE EFFECTIVENESS OF PUBLIC SECTOR ENTERPRISES REFORMS ON GROWTH AND PERFORMANCES OF STEEL AUTHORITY OF INDIA LTD

¹⁷ PUBLIC SECTOR UNDERTAKINGS: BHARAT'S OTHER RATNAS

a public organization/institution and its stakeholders is paramount for understanding their dynamics.

The SWOT analysis of stakeholders in the public sector entails assessing the internal and external factors influencing the success of stakeholder relationships. Strengths encompass active participation in community development and decision-making, robust communication channels, collaborative government agencies, and transparent decision-making processes. Weaknesses may manifest as difficulties in involving certain groups in decision-making, communication lapses, bureaucratic hurdles, and perceived transparency deficiencies. Opportunities lie in fostering public-private partnerships, leveraging technological advancements, and aligning policies with stakeholder interests. Threats may arise from opposition to specific policies or decisions, evolving public expectations, negative media portrayal, and dwindling stakeholder support.¹⁸

The role of independent directors in PSUs holds significant importance within the corporate governance framework. Acting as vigilant overseers with an outsider's perspective, they bring flexibility and objectivity to organizational functioning. The independent committee typically serves three main functions: nominating and selecting independent directors, monitoring the company's vision and strategy, and addressing governance-related issues.¹⁹

Effective leadership and management are pivotal for the success of PSUs. Essential leadership qualities include a positive demeanour, adept communication skills, adaptability to change, a focus on relationships, HR proficiency, and sound decision-making capabilities. Priorities for PSU HR departments encompass staffing, training, development, and performance management initiatives.²⁰

In conclusion, considering stakeholder perspectives is indispensable for comprehending PSU dynamics in India. Conducting periodic revisions of the stakeholder SWOT analysis ensures adaptability to evolving stakeholder environments, thereby contributing to a resilient public sector and a stronger India overall.

Stakeholder viewpoints are pivotal in shaping the governance, performance, and overall prosperity of Public Sector Undertakings (PSUs) in India. Below are additional insights into stakeholder perspectives concerning PSUs:

1. **Government Perspective:** The government, as a principal stakeholder in PSUs, holds ownership and wields considerable influence in policy-making, funding, and oversight. The

¹⁸ <https://www.linkedin.com/pulse/swot-analysis-stakeholders-public-sector-anastasiia-zernova-0ploe/>

¹⁹ Independent Directors in PSUs-Growing Challenges

²⁰ Leadership and Management of Public Sector Undertakings in an Emerging Economy

government's viewpoint typically centres on strategic objectives, public interest, and ensuring PSU alignment with national priorities and objectives.

2. **Board and Executive Management Perspective:** The board and executive management of PSUs bear responsibility for decision-making, strategy formulation, and operational oversight. Their perspective revolves around achieving organizational goals, ensuring regulatory compliance, and propelling performance and expansion.
3. **Independent Directors Perspective:** Independent directors bring an external, impartial outlook to PSU governance. Their standpoint underscores transparency, accountability, ethical conduct, and safeguarding stakeholder interests. They play a pivotal role in overseeing management decisions, managing risks, and upholding sound corporate governance standards.
4. **Employee Perspective:** Employees serve as integral stakeholders in PSUs, contributing to organizational success through their expertise, knowledge, and dedication. Their viewpoint prioritizes job security, avenues for career advancement, equitable compensation, and fostering a positive work environment. Engaging with employees and addressing their needs can bolster morale, productivity, and organizational effectiveness.
5. **Customer and Supplier Perspective:** Customers and suppliers, as external stakeholders, wield significant influence on PSU success. Meeting customer requirements, delivering quality products or services, and nurturing robust supplier relationships are vital for sustaining operations, enhancing reputation, and fostering growth.
6. **Society at Large Perspective:** PSUs extend their impact beyond immediate stakeholders to broader societal realms. Their activities can shape economic development, job creation, environmental stewardship, and social well-being. Considering society's viewpoints helps PSUs align their endeavours with overarching societal objectives and obligations.
7. **Investor Perspective:** Investors, encompassing shareholders and financial entities, possess keen interest in PSU financial performance and governance. Their outlook centres on investment returns, risk management, transparency, and adherence to regulatory standards. Cultivating investor trust through effective governance and performance can attract capital and bolster long-term sustainability.

Regulatory Framework and Compliance

The regulatory framework governing Public Sector Undertakings (PSUs) in India encompasses provisions outlined in the Companies Act 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, and the Department of Public Enterprises (DPE) Guidelines.

These regulations are designed to uphold transparency, accountability, and ethical conduct within PSUs. Nonetheless, the unique nature of government ownership and control poses distinct challenges in implementing corporate governance practices.

The government holds authority over the appointment of all directors, including executive, nominee, and independent directors, thereby restricting the involvement of other shareholders in the approval process. Furthermore, the attendance of government nominee directors at Annual General Meetings (AGMs) is often lacking, diminishing the significance of these gatherings. Additionally, the role of Nomination and Remuneration Committees (NRCs) is constrained in PSUs, with many of their functions being performed by the government.

The DPE Guidelines offer comprehensive instructions concerning the composition of the Board of Directors, audit committees, remuneration committees, subsidiary companies, as well as disclosures and reporting for CPSEs. Emphasizing transparency, accountability, and ethical standards, these guidelines underscore the importance of governance best practices within PSUs. Efforts are underway by the government to enhance transparency and accountability levels in PSUs by addressing issues such as non-compliance with regulatory, statutory, or listing requirements, and improving shareholder service. The DPE Guidelines also outline protocols for the composition of the Board of Directors, including the appointment of independent directors and the separation of the posts of Chair and Managing Director.

Despite the challenges posed by government ownership and control, the regulatory framework and guidelines provide a robust framework for ensuring transparency, accountability, and ethical conduct in PSUs. Enhancing the implementation of corporate governance in PSUs necessitates addressing the hurdles associated with government ownership and control, while ensuring strict adherence to the regulatory framework and guidelines.

The regulatory framework overseeing Public Sector Undertakings (PSUs) in India is shaped by an array of laws and regulations, notably including the Companies Act of 2013, Securities and Exchange Board of India (SEBI) regulations, and Department of Public Enterprises (DPE) guidelines. These regulatory measures are crafted to uphold principles of transparency, accountability, and ethical conduct within PSUs.

Under the Companies Act of 2013, PSUs are mandated to adhere to various provisions concerning corporate governance, encompassing aspects like the appointment of independent directors, establishment of audit committees, and disclosure of financial information. Similarly, SEBI regulations stipulate compliance with diverse listing requirements, such as the disclosure of material information, appointment of independent directors, and formation of risk management

committees.

The DPE guidelines furnish comprehensive directives regarding the composition of the Board of Directors, audit committees, remuneration committees, subsidiary companies, as well as disclosures and reporting for CPSEs. These guidelines underscore the significance of transparency, accountability, and ethical standards within PSUs, offering detailed instructions on critical governance aspects, including the appointment of independent directors and the segregation of Chair and Managing Director roles.

However, the execution of corporate governance practices in PSUs encounters challenges due to government ownership and control. Notably, the government's authority in appointing all directors, including executive, nominee, and independent directors, curtails the involvement of other shareholders in approval processes. Moreover, the low attendance of government nominee directors at Annual General Meetings (AGMs) undermines the significance of these gatherings, while the limited role of Nomination and Remuneration Committees (NRCs) in PSUs hampers effective governance.

To tackle these hurdles, the government is striving to enhance transparency and accountability levels within PSUs through measures addressing issues like regulatory, statutory, or listing requirement non-compliance, and improving shareholder service. Additionally, the DPE Guidelines provide further guidance on Board of Directors composition, including the appointment of independent directors and the division of Chair and Managing Director roles.

In conclusion, while navigating challenges posed by government ownership and control, the regulatory framework and adherence to guidelines furnish a robust groundwork for ensuring transparency, accountability, and ethical practices within PSUs. Enhancing the implementation of corporate governance in PSUs necessitates addressing the complexities of government ownership and control while ensuring strict compliance with regulatory mandates and guidelines.

Governance Structure in PSUs

The governance structure within Public Sector Undertakings (PSUs) in India comprises three key tiers: the Owner, the Board, and Executive Management. The Owner, represented by the Government, holds the ultimate responsibility for PSU performance. Meanwhile, the Board, playing a pivotal role, consists of Functional Directors, Government Nominee Directors, and Independent Directors. Notably, Independent Directors assume a critical role in corporate governance, serving as vigilant overseers with an external perspective, offering impartiality and

objectivity to organizational operations.²¹

Over time, the governance framework in PSUs has undergone evolution, increasingly prioritizing transparency, accountability, and engagement with stakeholders. The role of Independent Directors has evolved into a proactive one, extending beyond mere participation in board proceedings to actively driving performance and fostering long-term value creation for their respective entities.

The regulatory landscape governing PSUs is characterized by stringent, multi-layered mechanisms, subjecting Public Sector Enterprises (PSEs) to diverse checks and controls. These include oversight by the Central Vigilance Commission, multiple layers of audit scrutiny, compliance with Right to Information (RTI) regulations, and adherence to various directives from SEBI and the Companies Act. The composition and structure of PSU Boards align with the principles of good corporate governance, mandating the inclusion of non-official directors, with at least one-third of Board Members being non-executive in both listed and unlisted PSEs, along with a non-executive Chairman.

Nevertheless, challenges persist in implementing corporate governance practices within PSUs, notably regarding the appointment of Independent Directors. PSEs have faced criticism due to vacant Independent Director positions, often beyond their control. The Companies Act has underscored the pivotal role of Independent Directors, mandating their inclusion across various Board Level Committees, thereby necessitating their active involvement.

The regulatory framework and adherence to compliance standards in PSUs are governed by a myriad of laws and regulations, including the Companies Act of 2013, SEBI regulations, and DPE guidelines. While the government's ownership and control pose challenges to implementing corporate governance practices, the existing regulatory framework and guidelines serve as a robust foundation for ensuring transparency, accountability, and ethical conduct within PSUs. Enhancing the implementation of corporate governance in PSUs requires addressing the hurdles posed by government ownership and control while ensuring steadfast adherence to regulatory mandates and guidelines.

The governance framework within Public Sector Undertakings (PSUs) in India has experienced notable transformations in recent times, with an amplified emphasis on transparency, accountability, and stakeholder involvement. This framework encompasses three distinct layers: the Owner, the Board, and Executive Management.

The Owner, represented by the Government, assumes the ultimate responsibility for PSU

²¹ Independent Directors in PSUs-Growing Challenges

performance. It endeavours to ensure the efficient and effective operation of PSUs, facilitating the provision of goods and services to the public at reasonable rates while yielding profits for the Government. However, the Government's ownership and control of PSUs present distinct challenges in implementing corporate governance practices. Notably, the government oversees the appointment of all directors, including executive, nominee, and independent directors, thereby constraining the involvement of other shareholders in approval processes.

The Board, occupying a central role, comprises Functional Directors, Government Nominee Directors, and Independent Directors. Functional Directors oversee the day-to-day management of PSU operations, while Government Nominee Directors represent governmental interests and offer oversight and guidance to PSUs.

The role of Independent Directors is pivotal in the corporate governance matrix, serving as vigilant overseers with an external perspective, thus contributing flexibility and objectivity to organizational operations. These directors are tasked with ensuring that PSUs operate in the best interests of all stakeholders, including shareholders, employees, customers, and the public, leveraging their expertise and experience to provide invaluable insights on various matters.

The regulatory framework governing PSUs is rigorous and multifaceted, subjecting Public Sector Enterprises (PSEs) to a diverse array of checks and controls, including oversight by the Central Vigilance Commission, multiple layers of audit scrutiny, compliance with Right to Information (RTI) regulations, and adherence to various directives from SEBI and the Companies Act. The composition and structure of PSU Boards align with the principles of good corporate governance, mandating the inclusion of non-official directors, with at least one-third of Board Members being non-executive in both listed and unlisted PSEs, along with a non-executive Chairman.

However, challenges persist in implementing corporate governance practices within PSUs, particularly concerning the appointment of Independent Directors. PSEs have encountered criticism due to the vacant positions of Independent Directors, often beyond their control. To mitigate these challenges, the government endeavours to enhance transparency and accountability levels within PSUs, implementing measures to address issues such as non-compliance with regulatory, statutory, or listing requirements, and enhancing shareholder service. Additionally, the DPE Guidelines offer directives on the composition of the Board of Directors, encompassing the appointment of independent directors and the separation of the posts of Chair and Managing Director.

In conclusion, the governance framework within PSUs in India has undergone evolutionary changes, increasingly prioritizing transparency, accountability, and stakeholder engagement.

Despite the complexities arising from government ownership and control, the regulatory framework and guidelines provide a robust foundation for ensuring ethical practices and transparency within PSUs. Augmenting the implementation of corporate governance practices in PSUs necessitates addressing challenges associated with government ownership and control while fostering adherence to regulatory mandates and guidelines.

Performance Measurement Framework

The evaluation of performance in Public Sector Undertakings (PSUs) in India is a pivotal aspect of their governance and management. This process involves assessing the efficiency, effectiveness, and productivity of these organizations through various performance metrics.

These metrics encompass both financial and non-financial indicators. Financial metrics include crucial measures such as return on capital employed (ROCE), return on equity (ROE), and net profit margin. Non-financial indicators, on the other hand, encompass metrics like customer satisfaction, employee satisfaction, and environmental sustainability.

A cornerstone of the performance measurement framework for PSUs is the Memorandum of Understanding (MoU) system. This system entails a contractual agreement between the government, as the PSU owner, and its management, delineating performance targets and objectives over typically a one-year period. The primary aim of the MoU system is to enhance the accountability and autonomy of PSUs, ensuring alignment with the government's strategic goals. Notably, this system integrates various performance metrics to gauge PSU performance comprehensively.

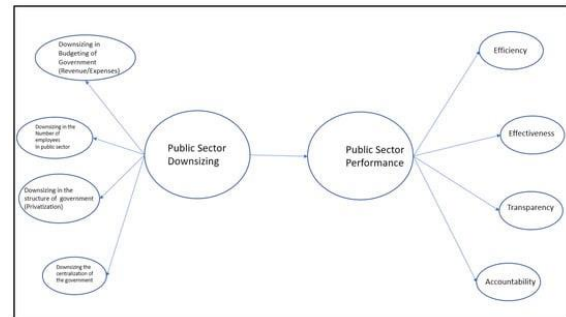
Empirical studies underscore the positive impact of the MoU system on PSU performance. Research by Ajay Chhibber and Swati Gupta, for instance, revealed that MoUs bolster PSU performance by elevating their return on capital (ROC) by approximately 8-9 percentage points. Furthermore, another study by Seema et al. highlighted how the MoU system contributed to enhancing the financial performance of disinvested central public sector enterprises (CPSEs) in India, particularly in terms of return on capital employed (ROCE) and net profit margin.²²

Additionally, the S&P BSE PSU index serves as another significant performance measurement framework for PSUs in India. This index, formulated by BSE Ltd., gauges the performance of PSUs, featuring the top 10 entities by market capitalization. It encompasses diverse performance metrics such as market capitalization, price-to-earnings ratio, and dividend yield, serving as a

²² Chhibber, A., & Gupta, S. (2017). Public Sector Undertakings: Bharat's other Ratnas. IIEP-WP-2017-6.

comprehensive benchmark for PSU performance.²³

In conclusion, the performance measurement framework in PSUs in India encompasses diverse performance metrics and systems like the MoU system and the S&P BSE PSU index. These frameworks are instrumental in evaluating the efficiency, effectiveness, and productivity of PSUs while fostering accountability and autonomy. Notably, the MoU system emerges as particularly impactful in enhancing PSU performance. Addressing challenges associated with government ownership and control and ensuring compliance with regulatory frameworks and guidelines are crucial for augmenting corporate governance implementation in PSUs.²⁴



Stakeholder Theory and Engagement

Stakeholder theory represents a strategic management approach highlighting the significance of engaging not only shareholders but all stakeholders to foster long-term value for the organization. It underscores that businesses operate within a broader ecosystem and heavily rely on relationships with customers, employees, suppliers, communities, investors, and others.

Stakeholder engagement encompasses both formal and informal methods of staying connected with stakeholders, comprehending their perspectives, being accountable to them when necessary, and leveraging their insights to drive innovation. The extent and manner of engagement vary based on factors like business size and operational context.²⁵

This engagement concept aligns with the core principle of corporate social responsibility (CSR), advocating that companies recognize their interdependence with stakeholders. CSR, a self-regulating business model, emphasizes a company's accountability to itself, stakeholders, and the public.

The evolution of stakeholder theory indicates a growing corporate consciousness regarding societal and environmental roles, transcending profit-making motives. This approach prioritizes stakeholders over solely shareholders and evaluates success not only in financial terms but also in its impact on all stakeholders.

Stakeholder theory promotes a company's responsibility to consider the interests of all

²³ People: International Journal of Social Sciences. (2018). A literature review with a focus on public sector corporate governance in India.

²⁴ Ansu Aby. (2019). Performance, challenges and potential of public sector undertakings of Kerala: A study.

²⁵ Stakeholder Engagement: Practicing the Ideas of Stakeholder Theory

stakeholders, not just shareholders, in decision-making processes. It advocates for decisions that benefit all involved parties, not just those with ownership shares. This theory advocates for a comprehensive approach to business stakeholder management, focusing on responsible engagement within the community and the global context.²⁶

In modern business practices, stakeholder theory and engagement play pivotal roles, stressing the importance of involving and considering all parties affected by a company's actions. Here are some additional insights on stakeholder theory and engagement:

1. **Stakeholder Identification:** An essential step involves recognizing and prioritizing stakeholders by identifying individuals, groups, or entities impacted by the organization's activities. Stakeholder mapping techniques help categorize stakeholders based on their influence, interest, or impact.
2. **Stakeholder Engagement Strategies:** Effective strategies entail communication, consultation, involvement, and collaboration through various channels such as surveys, focus groups, town hall meetings, social media, and advisory groups tailored to stakeholders' needs.
3. **Benefits of Stakeholder Engagement:** Engaging stakeholders leads to improved decision-making, enhanced reputation, increased innovation, better risk management, and stronger relationships across the spectrum of customers, employees, suppliers, and communities.
4. **Measuring Stakeholder Engagement:** Assessing engagement efforts is vital for continuous improvement. Key performance indicators (KPIs) like satisfaction levels, participation rates, feedback, and outcomes help gauge the impact of engagement on business performance and relationships.
5. **Integration with CSR:** Stakeholder theory intersects with CSR, emphasizing ethical behaviour, social responsibility, and sustainability. Engaging stakeholders allows companies to address societal and environmental concerns, demonstrate accountability, and contribute positively to society while creating sustainable value.

In conclusion, stakeholder theory and engagement are essential components of contemporary business practices, stressing the involvement of all stakeholders affected by a company's actions. By identifying stakeholders, implementing effective engagement strategies, realizing the benefits, measuring outcomes, and integrating with CSR initiatives, organizations can foster stronger relationships, enhance decision-making, and create sustainable value for all stakeholders involved.

²⁶ Freeman, R.E., Kujala, J., Sachs, S., Stutz, C. (2017). Stakeholder Engagement: Practicing the Ideas of Stakeholder Theory. In: Freeman, R., Kujala, J., Sachs, S. (eds) Stakeholder Engagement: Clinical Research Cases. Issues in Business Ethics, vol 46. Springer, Cham. https://doi.org/10.1007/978-3-319-62785-4_1

Chapter – III: Legal Reforms and Governance Structure

Legal reforms and governance structure are intricately linked elements that profoundly influence the operation of organizations and societies. Legal reforms involve the analysis and implementation of changes within a legal system to enhance justice or efficiency. Conversely, governance structure encompasses the rules, systems, and processes guiding the management and oversight of an organization or society.

The interplay between legal reforms and governance structures can reshape organizational behaviour and societal dynamics. For instance, legal reforms focused on transparency and accountability can foster the creation of new governance frameworks that facilitate public engagement, oversight, and scrutiny. Similarly, initiatives promoting gender equality through legal reforms can result in governance structures ensuring women's representation in decision-making roles.

This relationship holds particular significance in the context of Public Sector Undertakings (PSUs) in India, pivotal entities in the country's economy. The governance of PSUs is moulded by diverse legal and regulatory frameworks such as the Companies Act, 2013, Securities and Exchange Board of India (SEBI) regulations, and Department of Public Enterprises (DPE) guidelines.

Legal reforms targeted at bolstering corporate governance in PSUs wield significant influence over their governance structures. For instance, reforms advocating for the appointment of independent directors, formation of audit committees, and separation of Chair and Managing Director roles can precipitate the establishment of new governance models fostering transparency, accountability, and ethical conduct.

The Companies Act, 2013, stands out as a seminal legal reform reshaping the governance landscape of PSUs in India. Its provisions advocating for independent director appointments, audit committee establishment, and Chair and Managing Director role segregation have catalysed the adoption of governance structures fostering transparency, accountability, and ethical standards in PSUs.

SEBI regulations represent another pivotal legal reform shaping the governance fabric of Indian PSUs. Introducing provisions like disclosure of related party transactions, establishment of risk management committees, and appointment of women directors, these regulations have spurred the adoption of governance models fostering transparency, accountability, and gender diversity.

Likewise, DPE guidelines have played a significant role in reforming the governance structure of PSUs in India. By advocating for the establishment of nomination and remuneration committees,

appointment of a Chief Vigilance Officer, and implementation of whistleblower mechanisms, these guidelines have propelled the adoption of governance structures emphasizing transparency, accountability, and ethical practices.

The role of independent directors emerges as pivotal in the governance architecture of Indian PSUs. Tasked with bringing an objective and impartial perspective to board deliberations, they oversee and challenge PSU management. Legal reforms, such as those mandated by the Companies Act, 2013, requiring at least one-third of the board to comprise independent directors, underscore their critical role in enhancing governance standards.

In summary, legal reforms and governance structures are indispensable components of a robust and ethical business environment. Reforms promoting corporate governance significantly influence the governance dynamics of PSUs in India, fostering transparency, accountability, and ethical conduct. Key legal reforms like the Companies Act, 2013, SEBI regulations, and DPE guidelines have profoundly shaped the governance frameworks of Indian PSUs, promoting corporate governance and elevating standards of transparency, accountability, and ethical conduct.

Further exploration into legal reforms and governance structure for Public Sector Undertakings (PSUs) in India uncovers several crucial aspects:

1. **Regulatory Adherence:** PSUs must comply with diverse regulatory frameworks like the Companies Act, SEBI regulations, and DPE guidelines to uphold transparency, accountability, and robust governance standards.
2. **Director Appointments:** The appointment of directors in PSUs, often orchestrated by the government, presents challenges regarding independence, expertise, and potential political influence. Balancing governmental oversight with professional management is pivotal for effective governance.
3. **Role Segregation:** Separating the roles of Chairperson and Managing Director within PSUs is imperative to prevent power concentration and foster checks and balances, thereby enhancing transparency, accountability, and decision-making processes.
4. **Performance Assessment:** Establishing mechanisms for evaluating PSU performance is crucial to gauge operational efficiency, financial health, and alignment with strategic goals. Regular assessments pinpoint areas for enhancement and drive organizational success.
5. **Corporate Governance Framework:** A strong governance framework is indispensable for guiding PSU operations, encompassing ethical norms, risk management protocols, board composition, and disclosure standards to ensure effective governance and stakeholder confidence.

6. **Digital Integration:** Embracing digital initiatives can boost PSU efficiency, transparency, and service quality. Leveraging technology for administrative tasks, communication, and data management streamlines operations and enhances governance practices.
7. **Stakeholder Involvement:** Engaging with stakeholders, including employees, shareholders, governmental bodies, and the public, fosters transparency, accountability, and trust in PSU operations. Effective stakeholder communication and collaboration bolster sound governance practices.
8. **Compliance Oversight:** Establishing robust monitoring mechanisms ensures adherence to regulatory mandates, internal policies, and ethical guidelines. Regular audits, reporting channels, and internal controls mitigate risks and uphold governance standards.
9. **Ethical Behaviour:** Cultivating ethical conduct and integrity among PSU personnel and leadership is foundational for maintaining trust, reputation, and legal compliance. Ethical practices underpin good governance and organizational culture.

By addressing these dimensions of legal reforms and governance structure, PSUs in India can fortify their governance practices, enhance performance, and uphold accountability and transparency in operations. Embracing best practices, regulatory compliance, and stakeholder engagement are pivotal for nurturing a culture of good governance and sustainable growth in PSUs.

Overview of Recent Legal Reforms

Recent legal reforms concerning Public Sector Undertakings (PSUs) in India concentrate on enhancing governance structure and performance. The government, as the primary PSU owner, significantly influences decision-making, criticized for impeding efficiency and growth.

To rectify this, a clear distinction between ownership and management functions is vital, acknowledging the disparity between sole and majority ownership. This demarcation is pivotal for bolstering corporate governance in PSUs.

PSUs adhere to various regulatory frameworks like The Companies Act 2013, SEBI Regulations, and DPE Guidelines, ensuring transparency, accountability, and governance.

However, PSUs face unique corporate governance challenges, including government-appointed directors, consolidated Chair and MD roles, and exemption from board performance evaluations, hampering governance practices.

To enhance PSU performance, aligning performance metrics with strategic objectives is essential. Financial metrics (e.g., revenue growth) and non-financial metrics (e.g., sustainability goals)

should reflect strategic aims, fostering a performance-driven culture and sustained growth.

Additionally, recent legal reforms focus on:

1. **Director Appointments:** Separating ownership and management functions by appointing professionals to manage PSUs.
2. **Role Separation:** Splitting Chair and MD roles to ensure decision-making transparency and accountability.
3. **Performance Assessment:** Ensuring board-conducted performance evaluations for government companies.
4. **Non-compliance:** PSUs face penalties for non-compliance, impacting reputation and transparency.
5. **Website Compliance:** Updated websites ensure compliance, transparency, and reputational protection.
6. **Corporate Governance Framework:** Compliance with legal guidelines ensures robust governance practices.
7. **Social and Environmental Responsibility:** Upholding ethical and responsible behaviour towards society and the environment.
8. **Mandatory Norms:** Enforcement of mandatory norms strengthens governance frameworks.
9. **Regulatory Bodies:** Empowering bodies like SEBI to enforce governance norms is crucial.
10. **Enforcement:** Implementing legal reforms is vital in combating corruption and bureaucratic influence, enhancing governance efficacy.

In essence, recent legal reforms aim to enhance PSU governance and performance by addressing governance issues, aligning metrics with strategic goals, fostering a performance-driven culture, and promoting transparency and accountability. These reforms are pivotal for ensuring responsible PSU operation and contributing to national economic growth.

Changes in Board Composition and Roles

The recent ruling by the National Labor Relations Board (NLRB) in the Cemex Construction Materials Pacific, LLC case presents a novel approach to determining employers' obligation to negotiate with unions sans a representation election. This decision marks a departure from the Board's past practices, prioritizing employees' prerogative to bargain through their chosen representatives and aiming to fortify the fairness and integrity of elections overseen by the Board.²⁷

²⁷ Board Issues Decision Announcing New Framework for Union Representation Proceedings

The recent ruling by the NLRB in the Cemex Construction Materials Pacific, LLC case introduces a fresh framework for determining employers' obligation to negotiate with unions without resorting to a representation election. This transformation aims to bolster the fairness and integrity of Board-conducted elections while underscoring employees' rights to select their representatives for negotiation purposes.

In this new framework, if a union asserts recognition based on a majority of employees in a suitable bargaining unit selecting the union as their representative, the employer must either acknowledge and negotiate with the union or promptly file an RM petition to request an election. Importantly, if an employer pursuing an election commits any unfair labour practices that would warrant nullifying the election, the petition will be dismissed. In such instances, instead of conducting a new election, the Board will mandate the employer to acknowledge and negotiate with the union.

This ruling reflects the NLRB's endeavour to better uphold employees' right to negotiate through their chosen representatives while acknowledging that employers still retain the option of opting for a Board-supervised election. The new standard seeks to foster an equitable election atmosphere by dissuading employers from engaging in unfair labour practices. This innovative framework, as evidenced by the Cemex case, deviates from the historical Joy Silk standard, which obligated employers to negotiate with a union unless there existed a genuine doubt regarding the union's majority status.

In recent times, there have been significant transformations in board composition and functions, particularly in response to demands for increased diversity, transparency, and accountability. These alterations aim to enhance the efficiency and governance of boards, as well as to amplify the representation of diverse stakeholders.

One notable trend is the burgeoning emphasis on gender diversity in board makeup. Many nations and entities have instituted policies and objectives aimed at augmenting female representation on boards. For instance, in 2011, the European Commission set a goal of having 40% of non-executive board members be women by 2020. Similarly, in the United States, the Nasdaq Stock Market has proposed a regulation mandating listed companies to have at least one female director and one director from a diverse background on their boards or provide an explanation for their absence.

Another trend is the escalating focus on board autonomy and answerability. This encompasses

the segregation of CEO and board chair roles, along with the establishment of independent board committees like audit and compensation committees. These changes aspire to bolster the impartiality and openness of board decision-making processes, as well as to ensure that boards are more accountable to shareholders and other stakeholders.

Moreover, there has been a growing emphasis on boards' role in fostering sustainability and corporate social responsibility. This involves forming sustainability committees and integrating environmental, social, and governance (ESG) factors into board deliberations. These initiatives aim to ensure that boards are more responsive to the expectations of a wider array of stakeholders, including investors, employees, customers, and communities.

Lastly, there has been a movement toward increased transparency and disclosure in board practices and decision-making. This encompasses the dissemination of board diversity data, disclosure of board skills and expertise, and reporting of board performance metrics. These endeavours seek to enhance the accountability and efficacy of boards, as well as to offer investors and other stakeholders deeper insights into board practices and decision-making processes.

Transparency and Accountability Mechanisms

Transparency and accountability are fundamental for ensuring organizations and institutions uphold ethical standards and serve the public interest. These mechanisms come in various forms, applicable across diverse sectors and scenarios.

In international development, entities like the Asian Development Bank (ADB) and the U.S. Agency for International Development (USAID) have instituted transparency and accountability mechanisms to ensure efficient resource utilization and achievement of development goals. ADB's Accountability Mechanism offers a platform for addressing grievances related to ADB-assisted projects and reporting policy noncompliance. Meanwhile, USAID's Transparency and Accountability policy underscores transparency's role in economic growth and poverty reduction, emphasizing accountability in governance.

In contexts like facial recognition technology, transparency and accountability mechanisms are crucial for addressing privacy, bias, and discrimination concerns. Clear policies on facial recognition use, independent oversight, and public engagement processes can mitigate these issues.

In resource-rich countries, transparency and accountability mechanisms are vital for responsible natural resource management and equitable benefit distribution. The International Monetary Fund (IMF) stresses their importance in economic development, noting that transparency fosters

accountability, holding authorities liable for their actions.

Across public sector organizations, private companies, and civil society groups, transparency and accountability mechanisms vary. They encompass measures like open data policies, corporate governance codes, and financial reporting requirements, ensuring responsible operations aligned with public interests.

In emerging technologies like artificial intelligence and blockchain, these mechanisms are pivotal for building trust and credibility.

In essence, transparency and accountability mechanisms are cornerstone elements of effective governance, fostering trust, credibility, and responsible operations across diverse sectors and scenarios.

Decision – Making Processes

The decision-making process entails a series of steps individuals or groups undertake to identify the best option or course of action for addressing a particular issue. This process involves several key stages: identifying the decision, gathering relevant information, identifying alternatives, weighing the evidence, choosing among the alternatives, implementing the decision, and reviewing and learning from the outcomes.

Initially, identifying the decision necessitates defining the problem or opportunity and establishing clear objectives. Subsequently, gathering relevant information involves sourcing data from various internal and external channels to inform the decision-making process.

Following this, identifying alternatives entails brainstorming potential solutions or options to tackle the problem. Then, weighing the evidence requires assessing the advantages and disadvantages of each alternative, along with considering associated risks and benefits.

Once the evidence is evaluated, choosing among the alternatives involves selecting the most suitable option aligned with the decision's goals. Subsequently, implementing the decision involves taking action to execute the chosen course of action and monitoring its progress to ensure desired outcomes are achieved.

Lastly, reviewing and learning from the decision-making process involves reflecting on the outcomes, evaluating their effectiveness, and deriving insights to enhance future decision-making endeavours.

Adhering to a systematic decision-making process facilitates more deliberate and thoughtful decision-making, reducing errors, enhancing accountability, and fostering transparency and trust. However, this process can be influenced by various factors such as individual biases, group

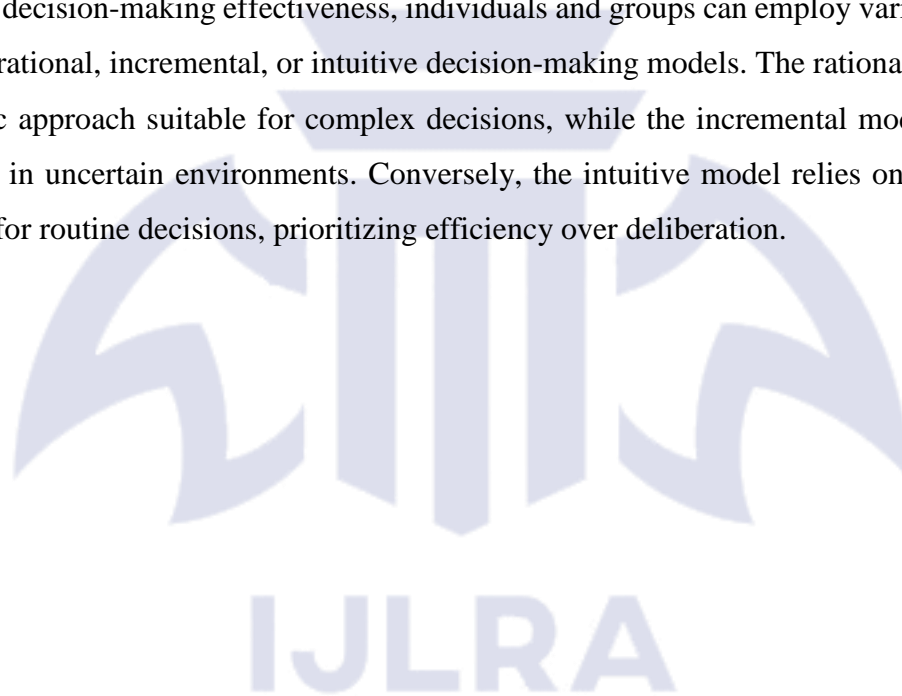
dynamics, and organizational culture.

Individual biases, including cognitive biases like confirmation bias or availability bias, can skew perception and information processing. Recognizing and addressing these biases enables more objective decision-making.

Moreover, group dynamics, such as group size, composition, and norms, shape decision-making outcomes. Diverse groups tend to produce more innovative decisions, while groupthink can lead to suboptimal outcomes.

Organizational culture, encompassing values, norms, and structures, also influences decision-making. Strong cultures of accountability and transparency foster ethical decisions, while weak cultures may result in opaque and unaccountable choices.

To enhance decision-making effectiveness, individuals and groups can employ various strategies such as the rational, incremental, or intuitive decision-making models. The rational model offers a systematic approach suitable for complex decisions, while the incremental model allows for adaptability in uncertain environments. Conversely, the intuitive model relies on intuition and experience for routine decisions, prioritizing efficiency over deliberation.



Chapter – IV: Case Laws

Legislation concerning Public Sector Undertakings (PSUs) in India encompasses a range of statutes, regulations, and policies governing their management, operations, and governance. These legal frameworks are crafted to uphold transparency, accountability, and efficiency within PSUs, alongside advancing the public interest and citizen welfare.

Among the significant laws relevant to PSUs in India are:

1. **The Companies Act, 2013:** This legislation governs the establishment, administration, and governance of companies across India, including PSUs. It delineates the rights, obligations, and liabilities of directors, shareholders, and other stakeholders, and outlines procedures for director appointment, removal, and remuneration.
2. **The Securities and Exchange Board of India (SEBI) Act, 1992:** This act establishes SEBI, the regulatory authority overseeing India's securities market. SEBI's purview includes regulating the listing, trading, and disclosure of securities issued by PSUs, as well as ensuring adherence to securities laws and regulations.
3. **The Public Enterprises Act, 1965:** This legislation facilitates the transfer and acquisition of management control over certain enterprises to the central government. It establishes the operational and governance framework for PSUs, detailing the powers and duties of boards of directors, administrative oversight, and governmental involvement in PSU management.
4. **The Right to Information Act, 2005:** Enabling citizens to access information held by public entities, including PSUs, this act fosters transparency and accountability within PSU operations. It aims to empower citizens to participate effectively in PSU decision-making processes.
5. **The Central Vigilance Commission Act, 2003:** Establishing the Central Vigilance Commission (CVC) as India's apex anti-corruption body, this act oversees the prevention, detection, and investigation of corruption within PSUs. It ensures that PSUs maintain transparency and accountability in their operations.

These legislative measures establish a comprehensive framework for governing, managing, and regulating PSUs in India. Their overarching goal is to foster transparent, accountable, and efficient operations within PSUs while safeguarding the public interest and citizen welfare.

Cases:

Numerous legal cases pertaining to Public Sector Undertakings (PSUs) in India shed light on various aspects of their operations and governance.

In the first instance, the Department of Public Enterprises (DPE) has issued directives to Indian PSUs, advising them to include a clause in contracts with foreign firms regarding immunity from the jurisdiction of foreign courts. This clause is aimed at preventing situations where Indian PSUs face litigation in foreign courts, dragging the Government of India into legal disputes. It clarifies that the PSU enters agreements solely on its behalf, not representing the Government of India, thus absolving the government of any liabilities, obligations, or rights under such agreements.

The second case explores the intersection between PSUs and competition law in India. Authors contend that while PSUs receive various government benefits to fulfil economic and social objectives, competition law seeks to eliminate unfair advantages conferred upon any entity, regardless of intent. The recent Supreme Court ruling upheld the applicability of the Competition Act to PSUs, rejecting claims of immunity based on statutory origin or constitutional status.

The third case, reported by the Hindu Business Line, discusses a Comptroller and Auditor General (CAG) audit revealing deficiencies in board structures at central PSUs. Many PSUs lacked the required number of independent directors (IDs) and non-executive directors, failing to adhere to basic governance rules as mandated by SEBI regulations.

In the fourth instance, an author examines corporate governance provisions outlined in the Companies Act, 2013, SEBI guidelines on Corporate Governance, and DPE guidelines for Central Public-Sector Enterprises. While the Companies Act, 2013 provides a comprehensive framework for corporate governance applicable to all companies, including PSUs, SEBI guidelines are relevant only to listed PSUs. However, DPE guidelines are obligatory for all PSUs, irrespective of their listing status.

Lastly, the Supreme Court has opined that State Monopolies, Government Companies, and PSUs must not engage in activities contravening the Competition Act. The Court emphasized that while disinvestment could address such issues, these entities must align with evolving economic philosophies, refraining from abusing their dominant positions for sustainable economic growth in the country.

Legal precedents concerning Public Sector Undertakings (PSUs) in India encompass various aspects, including the liability of the Government of India regarding contracts involving commercial activities abroad of Indian PSUs, the immunity of PSUs from foreign court jurisdiction, and their role in the Indian economy.

In the case of *Shankar Dass v. Union of India*²⁸, the court underscored the importance of accountability for PSUs, emphasizing the necessity to minimize unnecessary litigation. It pointed out that litigation costs could significantly impact the profitability of these entities and their capital output ratio.

Similarly, in the case of *State of Madhya Pradesh v. Ram Ratan*²⁹, the court stressed the obligation of PSUs to adhere to the law of the land and the Constitution. It highlighted that these entities are subject to Part III of the Constitution, which safeguards fundamental rights of individuals.

Furthermore, the 126th Report of the Law Commission of India outlines the litigation management challenges encountered by PSUs. It indicates that a substantial portion of litigation involving these entities pertains to commercial transactions and service-related matters. To address this, the report recommends collaborative efforts between PSUs and the government to develop litigation policies and strategies aimed at minimizing unproductive litigation and preserving resources.

In addition to the legal precedents concerning Public Sector Undertakings (PSUs) in India, several other notable cases have significantly influenced the legal framework and governance practices of PSUs in the country:

1. *State of Bihar v. Bihar Co-operative Development and Cane Marketing Union Ltd*³⁰: In this instance, the Supreme Court of India stressed the paramount importance of transparency and accountability in the operations of PSUs. The court emphasized the necessity for PSUs to adhere strictly to principles of good governance, including financial transparency, ethical conduct, and compliance with legal obligations.
2. *Steel Authority of India Ltd. v. National Union Waterfront Workers*³¹: This case revolved around labour disputes within a PSU and highlighted the crucial significance of fair labour practices and the protection of employee rights within these organizations. The court's verdict underscored the imperative for PSUs to maintain harmonious industrial relations and uphold labour laws to foster a conducive work environment.
3. *Hindustan Zinc Ltd. v. Rajasthan Electricity Regulatory Commission*³²: Focused on the regulatory oversight of PSUs operating in regulated sectors, this case emphasized the role of

²⁸ AIR 1985 SC 772

²⁹ (1981) 30 Jab LJ 105

³⁰ 1967 AIR 389 1967 SCR (1) 848

³¹ AIR 2001 SC 3527

³² (2015) 12 SCC 611

regulatory bodies in supervising PSU operations to ensure adherence to industry standards, safeguard consumer interests, and promote fair competition.

4. ***Oil and Natural Gas Corporation Ltd. v. Gujarat Energy Transmission Corporation Ltd***³³: Addressing disputes arising from commercial contracts, this case underscored the legal responsibilities and liabilities of PSUs in contractual engagements. The court's decision emphasized the obligation for PSUs to honour contractual commitments and comply with legal obligations in their business transactions.
5. ***National Thermal Power Corporation Ltd. v. Singer Company***³⁴: This legal proceeding pertained to intellectual property rights and technology transfer agreements involving a PSU. The court's ruling emphasized the critical importance of safeguarding intellectual property and upholding contractual obligations in technology collaborations between PSUs and private entities.



³³ 2017 Law Suit (SC) 211

³⁴ 1991(1)ARBLR313 (DELHI), 44(1991)DLT122, ILR1991DELHI452

Chapter – V: Challenges and Opportunities

The complexities surrounding Public Sector Undertakings (PSUs) in India present both challenges and opportunities. Despite being predominantly owned by the Union or State Governments and contributing significantly to the nation's economic progress, PSUs have faced criticism regarding their governance structures, which are seen as impediments to growth and efficiency.

Challenges:

1. **Government Intervention:** The direct involvement of the Government in the day-to-day decision-making of PSUs has drawn criticism for fostering inefficiencies, corruption, and suboptimal decision-making.
2. **Corporate Governance Issues:** PSUs encounter unique corporate governance challenges, such as the government's exclusive appointment of directors, the concentration of power when one individual holds the Chair and MD positions, and the exemption of government entities from undergoing performance evaluations by the board.
3. **Non-compliance:** PSUs frequently fail to comply with stipulations outlined in the Companies Act, LODR Regulations, and DPE Guidelines, resulting in penalties imposed by stock exchanges.
4. **Website Maintenance:** Many PSU websites remain outdated, violating LODR Regulations and posing reputational risks.

Opportunities:

1. **Performance Assessment:** The adoption of performance metrics aligned with organizational goals can foster a culture of performance, encouraging teams to collaborate effectively, pursue innovative solutions, and surpass predefined benchmarks.
2. **Corporate Governance Reforms:** Strengthening corporate governance frameworks within PSUs can enhance financial performance, boost transparency, and curb corruption.
3. **Digital Innovation:** Embracing digital transformation initiatives has the potential to enhance operational efficiency, transparency, and service delivery. Technology integration in administrative processes, communication, and data management can streamline operations and elevate governance standards.

4. Stakeholder Engagement: Active engagement with stakeholders, including employees, shareholders, governmental bodies, and the public, is pivotal for fostering transparency, accountability, and trust in PSU operations.
5. Trade Union Mobilization: Trade unions can leverage collective strength to negotiate better wages, improved working conditions, and social security benefits for workers. Additionally, they can adapt to changing work dynamics and explore innovative strategies to organize labour in non-traditional sectors.³⁵

In summary, while PSUs in India confront significant governance, performance, and stakeholder engagement challenges, there exist avenues for improvement. By addressing these challenges and capitalizing on opportunities through performance evaluation, corporate governance enhancements, digital integration, stakeholder engagement, and trade union adaptations, PSUs can fortify their governance structures, enhance performance, and better cater to stakeholder needs.

Implementations challenges of legal reforms

The implementation challenges associated with legal reforms in Public Sector Undertakings (PSUs) can be intricate and diverse, as evidenced in the search findings. These challenges encompass various aspects:

1. Expertise Deficiency: Judges and stakeholders involved in executing legal reforms may lack expertise in the specific field or public administration, complicating the monitoring and enforcement of remedial standards.
2. Bureaucratic Hurdles: Institutional issues impeding compliance with reform mandates can be convoluted and challenging for bureaucrats and nonjudicial experts to navigate.
3. Enforcement Mechanism Insufficiency: Infrequent and erratic activation of enforcement mechanisms may shift much of the initiative to actors over whom the judge has only moderate control.
4. Unclear Implementation Plans: Recognition of the necessity for an implementation plan without a clear understanding of its content or role can impede successful execution.
5. Resource Constraints: Implementing legal reforms often demands substantial resources, including financial and human resources, which may be lacking.
6. Political Meddling: Political interference can disrupt decision-making processes and PSU operations, resulting in inefficiencies and potential corruption.

³⁵ Issues of Corporate Governance in Public Sector Undertakings

7. **Human Resource Management Challenges:** Managing human resources in PSUs presents difficulties due to bureaucracy, rigid hiring practices, and limited training opportunities.
8. **Corporate Governance Struggles:** Effective corporate governance in PSUs is vital for accountability, transparency, and performance, but it can be challenging due to political interference and lack of independence.
9. **Financial Management Issues:** PSUs encounter financial management challenges like budget constraints, inefficient resource allocation, and financial mismanagement.
10. **Technological Advancements Adaptation:** Keeping abreast of technological advancements poses challenges for PSUs, necessitating significant investments and adjustments.

To tackle these challenges, PSUs can consider adopting various strategies:

1. **Collaborative Leadership:** Cultivating collaborative leadership styles and competencies can foster effective cross-sector partnerships and outcomes.
2. **Social Responsibility Initiatives:** Implementing social responsibility initiatives such as environmental conservation, community development, and diversity and inclusion can contribute to societal well-being and bolster the competitiveness, credibility, and public trust of PSUs.
3. **Innovation Promotion:** Investing in research and development, fostering creative thinking, and embracing new technologies can stimulate innovation within PSUs.
4. **Workforce Diversity Embrace:** Embracing workforce diversity can bring diverse perspectives, skills, and experiences to PSUs.
5. **Brand Recognition Utilization:** Leveraging brand recognition and reputation can enhance the competitiveness, credibility, and public trust of PSUs.
6. **Proper Coordination and Management Arrangements:** Establishing adequate reform coordination and management arrangements, including defining the reform's governance structure and appointing a reform lead or champion, can facilitate successful implementation.
7. **Resource Availability Assurance:** Ensuring the availability of necessary resources, including financial and human resources, is crucial for the successful execution of legal reforms.
8. **Legal and Regulatory Framework Amendments:** Evaluating the compatibility and compliance levels of legal and regulatory frameworks and enacting primary laws on PSA can bolster the success of legal reforms.
9. **Risk Management and Mitigation Mechanisms Design:** Designing effective risk management and mitigation mechanisms can minimize bottlenecks and the risk of implementation delays.

10. Change Management and Capacity Building Strategies: Developing comprehensive change management and capacity building strategies can raise awareness of PSA reform rationale and mitigate resistance to change.³⁶

Opportunities for improvement and innovation

Drawing from the provided sources, opportunities for advancement and innovation within Public Sector Undertakings (PSUs) can be delineated as follows:

1. Collaborative Leadership: Embracing collaborative leadership approaches and nurturing effective partnerships across sectors can bolster innovation, efficiency, and competitiveness within PSUs.
2. Social Responsibility Initiatives: Introducing initiatives focused on social responsibility, such as environmental preservation, community development, and diversity and inclusion, can promote societal welfare and augment the credibility and public trust in PSUs.
3. Technological Advancements: Investing in research and development, embracing emerging technologies, and harnessing digital transformation can modernize operations, enhance service delivery, and improve citizen engagement within PSUs.
4. Workforce Diversity: Embracing diversity in the workforce can infuse PSUs with varied perspectives, skills, and experiences, fostering innovation and inclusivity.
5. Brand Recognition: Utilizing brand recognition and reputation can heighten the competitiveness and credibility of PSUs, attracting stakeholders and cultivating public trust.

By seizing these opportunities and implementing strategies aimed at fostering improvement and innovation, PSUs can elevate their performance, adapt to evolving landscapes, and better fulfil their public service mandate while contributing to economic progress and societal welfare.

Regulatory Compliance Issues

Regulatory compliance issues within Public Sector Undertakings (PSUs) may stem from weak board structures, lax regulations, potential political interference, and the absence of market pressures to drive efficiency or adopt best practices. These hurdles can result in governance lapses, non-adherence to corporate governance standards, and a lack of transparency and accountability.

³⁶ The Main Challenges of Public Sector Accounting Reforms and World Bank's Public Sector Accounting and Reporting (PULSAR) Program

<https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/main-challenges-public-sector-accounting-reforms-and-world-banks-public-sector-accounting-and>

However, there exist opportunities for enhancement and innovation within PSUs. By instituting more rigorous governance frameworks, bolstering oversight mechanisms, and fostering a culture of ethical leadership and decision-making across all echelons, PSUs can elevate their governance and operational efficacy. This not only enhances their competitiveness but also augments their contributions to the national economy.

Improving governance in PSUs holds paramount importance for economic stability and growth, given their pivotal roles in vital sectors like energy, banking, and infrastructure. Heightening PSU governance aligns with global best practices, attracting foreign investment, as investors increasingly scrutinize governance matters as indicators of a company's long-term viability and risk profile.

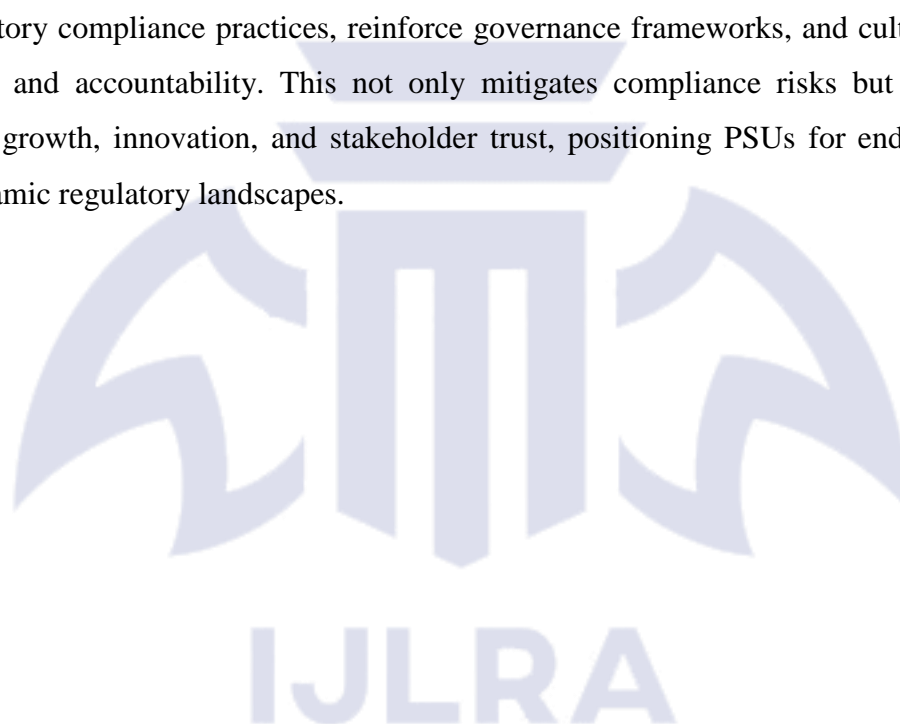
Moreover, the significance of adhering to export compliance regulations in university research and PSU travel cannot be overstated. These regulations impact diverse activities such as international shipping, hosting visiting scholars, and global travel. PSUs and universities must adhere to these regulations to avert potential liabilities and ensure the ethical and legal conduct of their operations.

Additionally, beyond the previously mentioned regulatory compliance issues, further challenges and prospects warrant exploration:

1. **Complex Regulatory Landscape:** PSUs often grapple with intricate regulatory environments, encountering hurdles in navigating evolving laws, managing regulatory risks, and ensuring compliance across diverse jurisdictions.
2. **Compliance Monitoring and Reporting:** Meeting ongoing compliance monitoring requirements, ensuring timely reporting, and aligning with regulatory mandates pose resource-intensive challenges, particularly when contending with multiple regulatory bodies.
3. **Risk Mitigation:** Identifying, evaluating, and mitigating regulatory risks is imperative for PSUs to evade penalties, safeguard reputation, and avert legal entanglements. Robust risk management strategies are pivotal for proactively addressing compliance challenges.
4. **Ethical Standards and Governance:** Upholding ethical norms, fostering transparency, and fortifying corporate governance are pivotal for building stakeholder trust, mitigating compliance risks, and bolstering organizational resilience within PSUs.
5. **Training and Awareness:** Regular training initiatives, heightening employee awareness, and fostering a compliance-oriented culture can engender steadfast commitment to regulatory adherence across all levels of PSUs.

6. **Technology Integration:** Harnessing technology solutions like compliance management software, data analytics, and automation aids in streamlining compliance processes, enhancing monitoring capabilities, and bolstering reporting accuracy within PSUs.
7. **External Audits and Reviews:** Conducting periodic external audits, compliance reviews, and assessments by impartial experts facilitates gap identification, evaluates the efficacy of compliance programs, and propels continuous enhancement in compliance practices.
8. **Stakeholder Engagement:** Engaging with regulators, industry bodies, and other stakeholders provides valuable insights, fosters collaboration, and ensures alignment with industry benchmarks and regulatory expectations.

Addressing these challenges and leveraging opportunities for refinement enables PSUs to fortify their regulatory compliance practices, reinforce governance frameworks, and cultivate cultures of integrity and accountability. This not only mitigates compliance risks but also nurtures sustainable growth, innovation, and stakeholder trust, positioning PSUs for enduring success amidst dynamic regulatory landscapes.



Chapter – VI: Conclusion

Recent legal reforms have had a significant impact on the governance structure and performance of Public Sector Undertakings (PSUs) in India. These reforms have targeted enhancing the financial performance and governance practices of PSUs, crucial for maintaining sound public financial management. Improving the financial performance and efficiency of PSUs could result in fiscal savings in the short- to medium-term, especially as the State-Owned Enterprise (SOE) privatization program is expected to unfold over several years.

The focus of reforms has been on bolstering governance and oversight of PSUs, which is conducive to successful privatization endeavours. The Indian government has introduced various policy measures, including the Memorandum of Understanding (MoU) mechanism, which establishes specific targets and benchmarks to gauge SOE performance with the aim of enhancing their accountability.

However, governance challenges extend to both central government SOEs and state government PSUs. State governments encounter hurdles like unclear implementation plans, inadequate enforcement mechanisms, resource limitations, and political influences.

The implementation of legal reforms in PSUs has encountered several hurdles, including a lack of expertise, bureaucratic impediments, insufficient enforcement mechanisms, and the absence of market pressures to drive efficiency or adopt best practices. Nonetheless, tackling these challenges offers prospects for enhancing and innovating within PSUs.

To bolster governance and operational efficiency, PSUs can embrace collaborative leadership, social responsibility initiatives, technological advancements, workforce diversity, and brand recognition. Addressing regulatory compliance issues can foster a culture of integrity and accountability, mitigating compliance risks while nurturing sustainable growth, innovation, and stakeholder trust.

The governance structure of PSUs has come under scrutiny, with efforts focused on strengthening oversight mechanisms, refining board structures, and augmenting corporate governance practices. Legal reforms aim to tackle issues such as political interference, transparency deficits, and operational inefficiencies in PSU operations.

Nevertheless, persistent challenges like regulatory compliance issues, resource constraints, political interference, and intricate regulatory environments continue to pose hurdles to the effective implementation of legal reforms and overall PSU performance.

However, amidst these challenges lie opportunities for enhancement and innovation. PSUs can leverage collaborative leadership, social responsibility initiatives, technological advancements,

workforce diversity, and brand recognition to refine their governance practices and operational efficiency. By addressing regulatory compliance issues, PSUs can foster a culture of integrity, transparency, and accountability, crucial for sustainable growth and stakeholder trust.

Looking ahead, it's imperative for PSUs to strive for excellence in governance, performance, and compliance. Embracing a culture of continuous improvement, innovation, and adaptability will be pivotal in navigating the evolving regulatory landscape and ensuring the long-term success and sustainability of PSUs in India. By seizing these opportunities and overcoming challenges, PSUs can emerge as pillars of economic development, social progress, and good governance in the country. In summary, recent legal reforms seek to enhance the governance structure and performance of PSUs in India, offering opportunities for improvement and innovation that contribute to economic growth and societal well-being.

Summary of key findings and insights gleaned from the analysis

An examination of the impact of India's Labour Codes on both its organized and unorganized sectors, with a particular focus on the IT sector, reveals several significant findings and insights:

1. **Broadened Definitions:** There's a proposal to expand and clarify the definitions of terms like "unorganized sector" to ensure inclusivity and precision. This highlights the necessity for a thorough and distinct categorization of sectors to ensure the Labour Codes' effective implementation.
2. **Legislative Acknowledgment:** Recognizing the "pink-slip" trend within India, especially prevalent in the IT sector, is crucial. This acknowledgment is vital for addressing employment challenges and providing legal safeguards for affected employees.
3. **Streamlined Processes:** Simplifying the registration and other procedural aspects outlined in the Labour Codes is vital for boosting compliance and operational efficiency. Departing from past regulations to streamline processes could result in improved implementation outcomes.
4. **Research and Revisions:** Further research into the gaps in India's labour laws and potential amendments is essential. Establishing a Standing Committee dedicated to this task can facilitate evidence-based reforms and enhancements to the legal framework.
5. **Engagement of Stakeholders:** Involving the public in the Labour Codes modification process is recommended to ensure a democratic approach and gather diverse viewpoints. This inclusive approach can lead to increased stakeholder satisfaction and legitimacy in the reform process.

6. Overall Advantages: Efficient implementation of the proposed changes is believed to benefit all categories of employees and enhance the country's labour law regime. These adjustments are deemed necessary for advancing employee rights, organizational effectiveness, and legal clarity within the labour sector.

In summary, the analysis underscores the significance of inclusive definitions, legislative acknowledgment, procedural simplification, research-backed amendments, stakeholder involvement, and the potential advantages of implementing these proposals for a more efficient and equitable labour law framework in India.

Implications for policy and practice

Recent legal reforms in India have significant implications for the governance structure and performance of Public Sector Undertakings (PSUs), affecting policy and practice in various ways:

1. Director Appointments: The government's appointment of all directors, including executive, nominee, and independent directors, can raise concerns about corporate governance. It's crucial to distinguish government ownership from management roles, emphasizing the importance of separating ownership functions from managerial responsibilities to enhance corporate governance.
2. Separation of Roles: Consolidating power in a single individual through combined Chair and MD roles undermines corporate governance principles. Separating these roles is necessary to ensure transparency and accountability in decision-making processes.
3. Performance Evaluation: The exemption of government companies from board-conducted performance evaluations poses a significant challenge. Boards should undertake these evaluations to ensure the accountability of independent directors and overall performance assessment.
4. Non-Compliance: Failure to comply with provisions outlined in the Companies Act, LODR Regulations, and DPE Guidelines can result in penalties and fines imposed by stock exchanges, leading to reputational risks for PSUs.
5. Website Maintenance: Outdated PSU websites violate LODR Regulations, posing reputational risks and compromising transparency in organizational operations.
6. Corporate Governance Framework: PSUs must adhere to the Companies Act 2013, SEBI Regulations, and DPE Guidelines to promote robust corporate governance practices applicable to both listed and unlisted PSUs.

7. **Social and Environmental Responsibility:** Beyond board accountability, corporate governance entails social and environmental responsibility. Companies must demonstrate responsible behaviour towards society and the environment.
8. **Mandatory Guidelines:** Mandatory norms and guidelines, like SEBI's clause 49, are crucial for strengthening corporate governance frameworks and preventing corporate failures due to unethical practices.
9. **Regulatory Oversight:** Regulatory bodies like SEBI play a vital role in enforcing corporate governance standards in PSUs. Empowering these bodies to enforce mandatory norms strengthens governance frameworks.
10. **Enforcement of Legal Reforms:** Ensuring effective enforcement of legal reforms is essential, particularly in developing economies prone to corruption and bureaucratic influence. Strong enforcement mechanisms are crucial for realizing the intended impact of legal reforms.

In conclusion, recent legal reforms in India have profound implications for PSU governance and performance. Compliance with mandatory norms, role separation, performance evaluations, social responsibility, and empowered regulatory oversight are critical for strengthening governance frameworks in PSUs. Enforcement of legal reforms is paramount to fortify corporate governance in PSUs and ensure their sustainable operation.

Future Research Directions

Future research directions for assessing the impact of recent legal reforms on the governance structure and performance of Public Sector Undertakings (PSUs) in India could include:

1. **Evaluation of Corporate Governance Reforms:** Investigating the effectiveness of corporate governance reforms, such as the DPE Guidelines, and their influence on the governance structure and performance of PSUs.
2. **Political Interference and Autonomy:** Delving into the effects of political interference and lack of autonomy on decision-making processes and performance within PSUs, including an analysis of leadership challenges and coping strategies.
3. **Examination of Rigid HR Practices:** Exploring the impact of inflexible rules and human resource practices on PSU performance, including constraints on HR reform and employee incentivization.
4. **Performance Evaluation Impact:** Assessing how performance evaluations affect the governance structure and performance of PSUs, with a focus on enhancing accountability and transparency.

5. Digital Transformation and E-Governance: Investigating the impact of digital transformation and e-governance initiatives on PSU governance and performance, including challenges faced during implementation and mitigation strategies.
6. Capacity Building Strategies: Studying the capacity building requirements of PSUs and strategies implemented to enhance capabilities, including analysing training programs' effectiveness on PSU performance.
7. External Accountability Mechanisms: Evaluating the influence of external accountability mechanisms like citizen charters and social audits on PSU governance and performance, emphasizing their role in improving transparency and accountability.
8. Mindset Change and Acceptance of Change: Understanding PSU employees' mindsets and barriers to change acceptance, including strategies employed to facilitate mindset shifts and their impact on PSU performance.
9. Policy-Making Capability of Elected Representatives: Investigating the policy-making proficiency of elected representatives in India, exploring challenges encountered and measures taken to bolster their capabilities.
10. Capacity Building at Political and Bureaucratic Levels: Examining capacity building needs at political and bureaucratic echelons in India, including the impact of training programs on governance structures and PSU performance.

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